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# STOCK EXCHANGE SECURITIES.

AN ESSAY ON THE GENERAL CAUSES OF FLUCTUATION IN THEIR PRICE.

*Enlarged by an Appendix of Evidence given before the Royal Commission on the Stock Exchange.*

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# ESSAYS IN FINANCE.

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BY

ROBERT GIFFEN.

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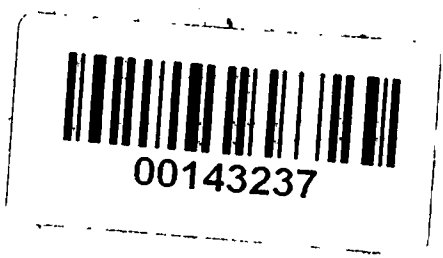

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# PREFACE.

THE greater part of the essays in the present volume were got ready for publication, and were actually printed, nearly two years ago; but the publication was unavoidably delayed. The delay enables me to include the last two essays in the volume, but it will be observed that one of them—"On the Fall of Prices of Commodities in Recent Years"—is not in the place it would probably have occupied if all the essays had been arranged for printing at one time. It now comes last in the volume, but it would come most properly in succession to the eighth essay, as forming one of a series, beginning with the first in the book, in which I have discussed some of the leading features in the economic development of the last ten years. With this exception the essays of this

series are all placed together nearly in the order of their dates.

The remaining essays in the volume were written on different occasions, and I have taken care to note the date in each case, so as to explain references and allusions which would hardly now be in place.

Several of the essays have previously been published either as papers read before the Statistical Society, or as contributions to reviews and newspapers; but one or two were written for private circulation only, and have not previously been given to the public in any shape. The first in the volume, on "the Cost of the Franco-German War," was written at the request of a banking friend, and a very limited number of copies were printed and privately circulated at the time it was written, viz., March, 1872. Owing to the incompleteness of the accounts at the time it was written, it would be possible now to state more exactly the *direct* cost of the Franco-German War to the combatants; but for the purposes of the discussion, which chiefly deals with the *indirect* burdens of the war, the figures are believed to be sufficiently accurate.

Looking over the volume as finally arranged, I have not been without a desire to add some notes referring to the course of discussion which has since taken place on some of the subjects treated of, or to subsequent events which have thrown additional light on the arguments used. But on second thoughts I consider this unnecessary. In most of the essays, though the subject is frequently occasional, I have endeavoured to go back to first principles; and unless some general interest in the subjects remained, apart from the particular illustrations which may have grown more or less obsolete, there would be no object in the present republication. The only remark I would desire to make is with reference to the third essay, "The Liquidations of 1873-6." It is obvious that if I were now writing I should have to speak of the liquidations, not of those years only, but of 1873-9, and have to explain more points than I could possibly take up when writing in 1877. But I see no reason to doubt the general soundness of the view I have expressed on the course of the present depression and its origin; although, subsequent to the date of my writing, bad harvests and other accidents

have aggravated and prolonged that depression. It is still true that the language in which the depression was spoken of in 1877 was unjustified by anything which had then occurred, and much as the depression has since been aggravated, it is doubtful if that language would yet be justified. There is absolutely nothing in the depression itself beyond former experience, and the suffering of the masses from want of employment and low wages has been as nothing compared with their suffering in former periods.

R. GIFFEN.

44, Pembroke Road,
Kensington,
*October*, 1879.

# ESSAYS IN FINANCE.

## I.

## THE COST OF THE FRANCO-GERMAN WAR OF 1870-71.

In the following pages an attempt will be made to answer various questions in relation to the cost of the Franco-German War.

The *first* question is the amount of the actual cost of the war, both direct and indirect. The object will be to reply to this question generally—that is, with as little reference as possible to the distribution of the burden. France and Germany have borne that burden most unequally, and neutral countries perhaps have not wholly escaped a share of the losses; but it will be interesting to ascertain first of all how much the world is really poorer. This will be the more necessary because it is considered that the question of the distribution of the burden raises new problems and requires separate discussion. The burden has not only been distributed unequally, but one country has been made to bear more than the whole cost of carrying on the war.

It is expedient, perhaps, to explain what is meant by the direct and the indirect cost. In the former will be included the outlay of the belligerent Governments, the losses by the destruction of property in warlike operations, the requisitions levied in the invaded districts, and the like. The object, in short, will be to include whatever direct outlay the operations of the war have occasioned and the visible destruction they have caused. The indirect expenses will include every sort of material loss which is fairly traceable to the war—the loss of income to the communities whose pursuits are disturbed, the displacement of capital, the destruction of valuable lives, and the like.

The *second* question is the loss of capital to the world in consequence of the charge of the war. The first and second questions, it is conceived, are entirely distinct from each other. A war may easily cost a great deal more to the communities which engage in it than the permanent loss of capital which it involves. The expenditure may be defrayed as well by the temporary privation of the community as by abstracting capital from individual and national resources. In part the expense of a war is always so defrayed, and it is by not attending to the distinction that people are astonished at the recovery of nations from a war which has cost overwhelming amounts.

The *third* question is the distribution of the burden of the loss among the different communities affected by the war. It is conceived that the peculiar arrangements at the close of the late war, by which an enormous war indemnity was imposed on the diminished area and population of one of the belligerents, are worthy of separate treatment. How much has France been made to bear and what additional loss has been inflicted on the world by so great a burden being thrust on a single nation? How much has Germany

gained by the receipt of a war indemnity far exceeding, it will be seen, the expense which it had incurred?

The *fourth* question will be the effect on the money markets of the world, and especially of England, of the financial arrangements made to meet these expenses and losses.

---

## I.—*THE DIRECT EXPENSES.*

It is too early yet to state any precise figures as to the actual amount even of the direct war expenditure by the respective Governments. According to the continental plan of dealing with budgets, an effort is made in closing the accounts to throw upon each year every burden properly *incurred* in it, and include every receipt which belongs to it, according to the budgetary laws. The accounts are therefore kept open till the exact destination of each item is properly ascertained, and it is not for two or three years after that we have a closed account. There is likely to be an unusual delay in making up the accounts of the war years in France. The confusion of war creates accounts which it would be difficult in any circumstances to adjust and the burning of the Hotel of the Ministry of Finance by the Communists will make the difficulty in the present case much greater than usual. The Budget Estimates, however, as revised to the latest date, are probably exact enough for the purposes of the present Memorandum, which need not go much into detail.

To deal with the case of France first. The first item in the direct expenditure is that of the Central Government. The amount under this head will probably be about £100,000,000, viz.:—

| | |
|---|---|
| Extra War Credits to Sept. 4, 1870* ..... | £28,000,000 |
| „ „ from Sept. 4, to Dec. 31, 1870* | 38,520,000 |
| „ „ in Rectified Budget of 1871 ... | 26,058,000 |
| Estimated expense of maintaining German troops in France in 1871 † ..... | 9,025,000 |
| | £101,603,000 |

In addition we should include the expense of maintaining the German troops in France subsequent to 1871, viz., for two years and a quarter; the cost of rebuilding fortresses, re-equipping troops, and the like, which are all to be carried to a special account for liquidation of the cost of "repairing the misfortunes of the war." ‡ M. Thiers estimated the probable amount of this liquidation in his Message of 7th December last at £16,000,000, but no proper details have yet been presented, and subsequent unofficial statements represent it as already £20,000,000. In any case, if we carry the above figure of £101,000,000 up to £120,000,000, we shall probably be about the mark as far as concerns the direct cost of the war to the French Government.

Some doubt may be entertained as to whether the expense of rebuilding fortresses and re-supplying the army with war

* Speech of M. Thiers, June 20, 1871. Rapport sur l'ensemble de la Situation Financière de la France, par M. de la Bouillerie, au nom de la Commission au Budget. It appears that £3,680,000 of the credits opened in 1870 were carried over to 1871, but the amount is apparently not included in the estimates set down for 1871. In any case it will be safe to retain the original figure, to provide against under-estimates.

† Rectified Budget of 1871, p. xxv. The actual expense would not be so great as this, as the evacuation was accelerated, but how much less there is no means of computing. Any excess will be a set-off against under-estimates, which are almost certain to be very large.

‡ M. Thiers' Message, December 7, 1871.

material should be included among the direct war expenses, but it is believed the proper course is to include these sums. A certain supply of fortresses and war material being considered necessary in peace to provide against the chances of war in general, any deduction from the stock in a particular war is a part of the direct cost of that war. And the value of this deduction is best represented by the cost of making up the deficiency. In the present case, the cost to France of the captured fortresses is probably greater than the expense to be incurred for providing makeshifts; but what France has lost Germany has gained, and we shall only have to deal with this point when we try to make an estimate of the burden on France alone.

It will be remarked, perhaps, that the deficits of France for 1870 and 1871 and subsequent years are or will be greater than the above figures, taken in connection with the payments for the indemnity, would imply, but a part of these deficits arises from the failure of revenue, which must be dealt with in a different manner. The Germans, as we shall see, get some of it, and, otherwise, what the Government lost by the non-payment of taxes the French people individually considered gained. It is a set-off against the individual losses we shall afterwards have to reckon.

So much then for the direct cost of the war incurred by the Central Government. There remains, to add the amount of requisitions levied by the invading army, the expenditure incurred locally, and generally the direct destruction of property in the war, so far as not provided for in the above items charged on the Central Government. These matters can only be roughly dealt with. The pages of the *Journal Officiel* for many months have been largely filled with *Projets de Loi* giving the Communes borrowing powers to cover their war expenditure. Years must elapse,

probably, before the account on these heads can be complete.

Some facts, however, can be ascertained. In September last the Minister of the Interior, in a report to the President, stated the extent of the losses of the kind referred to, according to documents collected by cantonal commissions appointed *ad hoc*. It appears that the amount of the *claims* in the thirty-four departments invaded, excluding Paris, is £32,844,000, composed as follows:—

| | |
|---|---|
| War contributions ... ... ... ... ... ... ... | £1,562,000 |
| Taxes levied by the Germans ... ... ... ... | 1,965,000 |
| Requisitions ... ... ... ... ... ... ... ... | 13,113,000 |
| Destruction of property by fire and other causes | 5,640,000 |
| Securities, articles of furniture, and other objects carried off without requisition ... ... ... | 10,564,000 |
| Total ... ... ... ... ... ... ... ... | £32,844,000 |

To this total, however—assuming the items for the present to be correct—we must add the following items:—

(1.) One-tenth additional for the losses sustained by the inhabitants of Alsace and Lorraine. These provinces were the seat of war quite as much as the other occupied territory of France which was not annexed to Germany. They were not perhaps the seat of military operations for so long a period, since they were treated as virtually annexed after the fall of Metz, but they had to bear the brunt of much of the active part of the war, including the siege of Strasburg. No account of the individual losses appears to have been drawn up, such as the French Government has compiled for the territory which remained to it; but the German Government has been obliged to vote considerable amounts for indemnity to the inhabitants who have suffered, and doubtless much will remain which will never be compensated by

the Government. As the population of the annexed territory is about 1,600,000, and that of the remaining departments of France invaded about 18,000,000 it is plain that about one-tenth of the expenses incurred by the latter is not too small an amount to assign to the former.

(2.) We must add the war contribution levied in Paris at the conclusion of the armistice, and the war expenses and other losses which Paris had to endure. According to the report of M. Leon Say proposing the new loan for Paris last August, the municipality was altogether about £16,000,000 the worse for the siege and insurrection.

| | |
|---|---|
| The war contribution was ... ... ... ... ... | £8,000,000 |
| The loss of revenue was... ... ... ... ... ... | 4,000,000* |
| The miscellaneous additional expenses were ... | 4,000,000 |
| Total ... ... ... ... ... ... ... ... | £16,000,000 |

Deducting from the above amount the item of £4,000,000 for loss of revenue which falls to be dealt with differently, like the loss of the State revenue, we obtain a total of £12,000,000 as the Paris losses by the events of the war, exclusive of its share in the direct national expenditure. According to M. Say's report the above sum does not include the cost which must be incurred in rebuilding the Hôtel de Ville, so that £12,000,000 is rather under than above the mark.

We have thus to add to the above total of £120,000,000, which represents the direct expenditure of the French Government on the war and its consequences, a sum of about £50,000,000, viz.:—

* The revenue of Paris is about £6,000,000 a year, and the city was besieged or in insurrection about seven months, while for other two months communications were much interrupted.

| | |
|---|---|
| Requisitions and other losses in the 34 invaded departments, as above ... ... ... ... ... | £32,844,000 |
| Estimated losses of similar nature in Alsace and Lorraine ... ... ... ... ... ... ... ... | 3,284,000 |
| War contributions on Paris, and other expenses | 12,000,000 |
| Total direct losses and expenditure by local authorities and individuals in France ... | £48,128,000 |
| *Less* amount voted by French Government on 6th September last, and included in above estimates of national expenditure | 4,040,000 |
| Net total ... ... ... ... ... ... | £44,088,000 |

One or two remarks may be made in explanation of these items. One is, that the item of £10,564,000 for securities and articles carried away by the Germans "without requisition" is in all probability excessive. This is the sort of claim which is apt to be exaggerated greatly, because disproof will be very difficult, and the claimants will be tempted to make the most of the existing prejudice in France against the Germans. The value of the articles for which regular requisition-papers were given by the German authorities is also, in all probability, exaggerated. It will be of little use, however, making any estimate of what the exaggeration amounts to, and deducting the sum from the total above set out. An error of this sort may fairly be set against the extreme probability of under-estimates in other directions which will not appear till the accounts are finally closed.

Another doubt which will be suggested relates to the apparent smallness of the items for the levies of the German armies during the war. Exclusive of the fine on Paris, it will be seen that the total amount received by the German armies from the occupied provinces was not more than between £16,000,000 and £17,000,000, viz.:—

| | |
|---|---|
| War contributions... ... ... ... ... ... ... | £1,562,000 |
| Taxes levied by Germans ... ... ... ... ... | 1,965,000 |
| Requisitions ... .. ... ... ... ... ... ... | 13,113,000 |
| Total ... ... ... ... ... ... ... ... ... | £16,640,000 |

And it is not quite certain that the total is so large, for the value of the requisitions, as we have already explained, is doubtful. Even if we add something for the plunder on account of which the French have sent in claims to their Government for £10,000,000, and allow also for the levies in Alsace and Lorraine, the money value to the German Government of the privilege of living on the enemy during the war would probably not be more than £20,000,000 or £25,000,000—only a fourth or a fifth of the war credits of the French Government itself. The expense of maintaining an invading army, according to this view, is not the most formidable item in the bill of war losses which a nation has to sustain. Nor is the fact to be wondered at, though contrary to the popular impression. After all, the invaders, unless they occupy large and wealthy cities—and this was not the case in France—can hardly impose on the country they invade more than the expense of their living. Clothing and munitions of war must all be secured beforehand or at home, and it is difficult to impose money fines which could be immediately useful when credit is suspended, however wealthy a country may be. The great bulk of the wealth is fixed in objects which cannot be carried away at all, or in objects which cannot be carried away quickly and sold, so as to be converted to the invader's use. He must take therefore, even for his own convenience, only what he can consume at once. A prolonged occupation, with military operations suspended in the occupied districts, would enable the conqueror to impose heavier tributes, but such an occupation is only occasionally possible during a war.

Besides all this, there was a considerable local expenditure throughout France in departments not occupied by the enemy in mobilising the National Guard. But the amounts have been reimbursed by the State, and are included in the above war credits.

There are two heads of loss, however, about which perhaps, there may be some doubt. The first of these is the damage caused to roads and bridges throughout the invaded departments. According to an official report made by a Commission of the Assembly, dated May 21, 1871, these losses appear to have been :—

| | |
|---|---|
| Damage to Communal roads ... ... ... ... ... | £400,000 |
| ,, Departmental roads ... ... ... ... | 360,000 |
| ,, Imperial roads ... ... ... ... ... | 366,000 |
| Total ... ... ... ... ... ... .. ... | £1,126,000 |

These losses, however, are probably included in the figures already submitted—the account for liquidating the cost of the war including large votes to the communes and departments, and the budgets including additional votes to the Ministry of Public Works for urgent repairs. The total amount is too small to make any material difference in the estimate of the total cost of the war.

The second doubtful item is the damage done to the railways, but it is not likely to have exceeded in amount the damage to the roads, the *length* of the railways endangered being much less than that of the roads. As a matter of fact, the railways were not much cut up, but were freely used by the Germans through the war. The rolling stock was injured or carried away by the Germans, but the rolling stock of all the railways in France can hardly be worth £20,000,000, and even if it was damaged 5 per cent.—a most liberal allowance—the loss would be under a million.

The omission of any estimate for this head of loss, therefore, should it prove not to be included in the above figures, will not alter materially the totals with which we shall have to deal.

We may put the direct losses in France therefore at about £164,000,000, viz., £120,000,000 directly expended by the Government, and £44,088,000 expended or lost by destruction of property in the provinces. It remains to inquire what expense was incurred by Germany of a similar nature.

And first as to the Government expenditure. The amount, it is believed, cannot exceed between £40,000,000 and £50,000,000. We have been unable to obtain any exact figures, but a few considerations may satisfy us that £50,000,000 will be an approximately correct amount to take.

In the first place, this is about the amount of the sums which Germany had to borrow for the actual conduct of the war, and as the indemnity was not afterwards appropriated to defray the war expenditure, and there were no other extraordinary resources, the loans must be nearly the measure of the outlay of the German Governments. So far as can be ascertained, the new loans and additions to the floating debt were :—

| | |
|---|---|
| North Germany— | |
| First issue of Treasury Bills ... ... ... ... | £5,000,000 |
| First issue of Treasury Bonds ... ... ... ... | 7,500,000 |
| Second ditto ditto ... ... ... ... | 7,500,000 |
| Funded loan ... ... ... ... ... ... ... | 15,000,000 |
| | £35,000,000 |
| Bavaria ... ... ... ... ... ... ... ... ... | 5,000,000 |
| Smaller German States .. ... ... ... ... | 5,000,000 |
| | £45,000,000 |
| Prussian war treasure exhausted ... ... ... | 4,500,000 |
| Total... ... ... ... .. ... ... ... | £49,500,000 |

This was all the money which it was necessary for Germany to provide during the progress of the war. To err on the safe side, however, we may put the amount at £60,000,000, to allow for arrears left over.*

The direct expenditure for the war thus cost Germany, in the first instance, about £60,000,000, against £164,000,000, which we have seen was the cost to France. Such is the difference made to a country, first, by being unprepared, and so having to spend more hastily; and second, by being the seat of war, when war is carried on in conformity with the rules which the Germans have followed. In any case, it is expensive to be the seat of war, but France was caught unprepared every way, and would have had to pay far more dearly than its opponent, even if there had been no indemnity to follow.

The other direct losses of Germany—viz., the losses of individuals—seem hardly worth considering. The only losses of the kind appear to have been the captures of German ships by French cruisers, but the captures were only 80 in number, and the total outlay thus occasioned, as well as for ships detained, appears to have been only £450,000.† The amount is absolutely insignificant compared with the figures with which we are dealing. Claims have also been made by German shipowners on account of ships lying idle, but they belong to the department of indirect losses, with which we have yet to deal.

Another direct loss which would also be sustained by the

* The actual outlay according to the latest German accounts is put at rather more than £90,000,000, but this sum includes many indirect items, so that the above estimate is really near the mark. See Preussischen Jahrbuch für 1875.

† Berlin correspondent of the *Times* June 3, 1871.

Germans is the difference between the real value of articles requisitioned by the Government in mobilising the army and the price which the Government pays for them. But there are no data for estimating this loss, which could not however be large.

There is one other item which we must discuss before leaving this part of our subject. We may fairly include as part of the direct cost of the war the capital of the new pensions which the losses of the war occasion. They are part of the pay of the soldiers, and are directly caused by the war, although they are only paid in subsequent years. We must charge as part of the direct cost therefore a capital sum sufficient to provide the pensions. No very exact amount can be stated for two reasons: (1) the annual amount of the additional pensions will probably not be ascertainable for a year or two; and (2) there are hardly any data for calculating the capital value. Still the item is worth mentioning. In the French Budget for 1872 the additional military pensions charged amount to £150,000, which at twenty years' purchase would represent a capital of £3,000,000, and it is not unlikely that before the accounts of the war are closed the amount will be about double, say £5,000,000 altogether. The cost to Germany will be at least as great, though no similar figure can be mentioned, as one of the uses of the French indemnity to the Germans has been the establishment for the first time of a military pension fund. It is impossible to say, then, what the cost of the pensions caused by the war will be. But as the war was not more murderous for Germany than France, but rather less murderous, and the scale of living has not been so high in Germany, we shall probably not be under the mark in estimating the cost of the war pensions to Germany at the same rate as the cost of the

like pensions to France. We have thus an additional sum of £10,000,000 to add to the direct cost of the war—£5,000,000 to each country.

The whole account up to this point will stand :—

| | | |
|---|---|---|
| DIRECT COST TO FRANCE. | | |
| War credits and expenses of re-equipment, &c. ... ... ... | £120,000,000 | |
| Fines, requisitions, and destruction of property (less £4,000,000 reckoned in war credits) ... .. ... ... ... | 44,000,000 | |
| Capital value of war pensions .. | 5,000,000 | |
| | | £169,000,000 |
| DIRECT COST TO GERMANY. | | |
| War credits, &c., less requisitions levied in France ... .. ... | £60,000,000 | |
| Capital value of war pensions ... | 5,000,000 | |
| | | 65,000,000 |
| Total Direct Expenditure ... ... ... | | £234,000,000 |

Such was the direct cost of the war to both Governments, so far as we can ascertain it. The two countries would have been "out" of this sum, and no more, had they been able to carry on their war operations without a stoppage of industry and production, and by hiring soldiers from distant countries with which they had no other relations. Looked at in this way, as the Finance Minister of a despotic country might be disposed to view it, war cannot be considered a very expensive game. For this sum of £234,000,000 the Governments of two great nations carried on unremitting hostilities against each other, employing altogether two and a-half millions of men for a period of nearly eight months. That is, it cost them *both* nearly £30,000,000 a month. At this rate, war is cheap. The aggregate annual income of the people of the two countries is probably about £1,200,000,000, so that the

direct cost of war at this rate for a twelvemonth would have been a little over a third of the national income. Both countries therefore, so far as mere expenditure on warlike operations is concerned, and if the expense were divided equally, could have gone on fighting for an indefinitely longer period without exhausting their material resources. This is a somewhat different view from the popular one about the expense of modern warfare, but there is no doubt about the facts, and the conclusion is in agreement with what might be expected from the strength of modern industry. It is the natural result of the introduction of machinery and the great accumulation of wealth, that great communities should be capable of extravagance for lengthened periods without approaching exhaustion, a feat which was hardly possible before the age of mechanical invention. Of course they would impoverish themselves in time, but the margin before exhaustion comes, comparing modern societies with the old, appears to have been increased.*

---

## *II.—THE INDIRECT EXPENSES AND LOSSES.*

We now come to more difficult ground. So far we have had tolerable data before us—the figures of budgets and official reports and the public borrowings of the belligerent Governments. But when we come to the indirect expense

* The contributions to various charitable associations in relief of the wounded and other victims of the war are also a part of the direct cost; but compared with the other items here dealt with it would be of no moment to reckon them, even if exact data were procurable. But the relief societies were so numerous and scattered, and so large a part of the contributions was in kind, that there are practically no data for an estimate.

of a war we have no such guide. We know that it is quite as real a matter—that in any business the loss which a man has to undergo in withdrawing capital from some other undertaking to embark in it is fairly reckoned as part of the cost of the new business. If he is making ten per cent. elsewhere, and makes fifteen in the new business, his net gain by the change is five per cent. If his new business is wholly profitless, he loses ten per cent. Still worse, if he abandons the idea of profit altogether and expends his capital in extravagance, he is poorer not only by the loss of income for a time, but by the whole capital he wastes. This last is the case of a nation engaged in war to a greater or less extent—especially in war as now conducted by European nations, who abstract from industrial pursuits enormous masses of the civil population. The community not only takes to spending, but part of its former income ceases. The expenditure and loss of income make up the bill which its extravagance really costs. But this loss of income in the case of great communities is difficult to ascertain. How far industry is suspended, and how far the war is the cause of it, are both very difficult questions to answer. And there are more serious difficulties behind. In the present conditions of modern industry, a nation whose pursuits are disturbed cannot fall back exactly into the old groove. When it settles down again it may have to engage to some extent in less productive industries than those which were formerly open to it. The difference between the old and the new profit is not only difficult to ascertain, but it is impossible of course to state the loss in capital which is equivalent to the loss of annual profit. On these points therefore, in relation to the present war, we shall only offer the roughest possible estimate.

To take the case of France first. The main point is

the loss of national income, and one measure of the loss, it is conceived, will be the falling off of the national revenue. In proportion to the losses of the taxpayer, he would be able to pay fewer taxes, so that the national revenue would probably suffer in the same degree as the aggregate income of the nation. And as the national revenue and the falling off it sustained in the years of war are both ascertainable amounts, while the aggregate income of the nation is an approximately calculable amount, it will be possible to state in this manner what the deficiency on the aggregate income may come to. The figure to be thus obtained will obviously be a very rough one. Many parts of the French national revenue would not fluctuate with the prosperity or adversity of the people. The direct taxes on land, for instance, are in the nature of fixed charges, not varying with the income of those who pay them, but collected almost to the full amount, irrespective of individual profits or losses. A bad year will no doubt cause an unusual amount of "*dégrèvements*" to relieve the very poor, but the bulk of the tax will be unaffected. Much the same may be said of the other direct taxes, which are all fixed on arbitrary bases similar to the direct tax on land. On the other hand, other parts of the revenue might fall off to an amount much greater in proportion than the diminution of the aggregate income which was the cause of the failure. The attempt of individuals not to trench on their capital, but to square their expenditure with their diminished income, might cause such an economy of luxuries as very seriously to diminish the amounts raised from optional taxation—the taxation, that is, which people regulate for themselves by the consumption of taxable articles. The business of transfer may also be suspended to a much greater extent

than the business of production, and so cause a disproportionate loss of revenue arising from charges on transactions. On the whole, however, when it is considered that as regards all moderate charges on articles of consumption a very slight reduction of the national revenue would imply very large economies on the part of the taxpayer, the tax being only a small part of the cost, and when it is also considered that the direct taxes which are not optional in their nature are only a fourth part of the State revenue of France, so that the fixed revenue, unaffected by the adverse fortune of the nation, is the least important—it may be assumed as most probable that the aggregate income of the people will have fallen off in excess of the proportion to which the national revenue has fallen off. To assume a loss of aggregate income in proportion only to the loss of national revenue will give us a minimum and not a maximum estimate.

Now what has been the loss of national revenue to France through the war? The French official estimates are as follows:—

| | |
|---|---|
| Loss of revenue in 1870 ... ... ... ... ... | £11,400,000 |
| Do. do in 1871 ... ... ... ... ... | 13,480,000 |
| Total ... ... ... ... ... ... ... ... | £24,880,000 |

Such is the calculated loss for a period of eighteen months, but two deductions must be made for our present purpose, as we are dealing only with the loss occasioned by the interruption of business through the war. We must deduct, in the first place, the loss occasioned by the Germans collecting the taxes instead of the French authorities, the amount so collected, as above stated, being £1,960,000. The taxes were in fact paid, though the French Government did not get them. And we must deduct in the same

way the loss of revenue occasioned by the transfer of Alsace and Lorraine to Germany. This loss also was not caused by the deficiency of income of the French taxpayers. As the annual loss appears to be about £2,452,000,* the loss for eighteen months would be £3,676,000, which falls to be deducted along with the amount of the taxes actually levied by the Germans from the above total of £24,880,000. The net loss of revenue to France therefore due to the interruption of business, withdrawal of civilians from industrial pursuits, and the like, would be as follows:—

| | | |
|---|---|---|
| Total loss of revenue in eighteen months as above | | £24,880,000 |
| *Deduct* taxes levied by Germans ... | £1,960,000 | |
| „ loss of revenue by transfer of Alsace and Lorraine to Germany ... .. ... ... ... | 3,676,000 | |
| | | 5,636,000 |
| Net loss by interruption of business, &c. ... | | ...£19,244,000 |

This is at the rate of £12,800,000 per annum, and as the annual revenue of France before the war, as fixed in the Budget for 1871, was £75,200,000, the proportion of

* Annual loss of Revenue to France by transfer of Alsace and Lorraine to Germany [compiled from Budget of 1872].

| | |
|---|---|
| Land tax ... ... ... ... ... ... ... ... ... | £219,000 |
| Personal and furniture tax.. ... ... ... ... ... | 74,000 |
| Door and window tax ... ... ... ... ... ... ... | 71,000 |
| Patent tax (estimate) ... ... ... ... ... ... ... | 114,000 |
| Mainmast tax ... ... ... ... ... ... ... ... | 18,000 |
| Registration of stamp duties ... ... ... ..., ... | 619,000 |
| Customs and salt duties ... .. ... ... ... ... | 296,000 |
| Miscellaneous indirect tax ... ... ... ... ... ... | 840,000 |
| Postal revenue ... ... ... ... ... ... ... ... | 120,000 |
| Produce of forests ... ... ... ... ... ... ... | 80,000 |
| Total ... ... ... ... ... ... ... ... | £2,452,000 |

revenue lost by stoppage of industry is as nearly as possible 17 per cent.—the loss running for a period of eighteen months.

We have only, then, to apply this measure to the aggregate income of France for a similar period, to see what individual loss the war has occasioned. Various estimates have been given of that income, but taking the most moderate estimate of £600,000,000 yearly, the loss in eighteen months, at the rate of 17 per cent., would be £153,000,000.

To this ought perhaps to be added the probable loss of income in years subsequent to 1871, before the routine of industry is fully re-established; but this would be too hypothetical an inquiry, and belongs rather to the question as to what has been the permanent loss of capital to France through the war.

Is there any way, however, of testing whether the French people on the average would only lose a fifth of their income for eighteen months, including a period of nearly eight months when both war and insurrection had been over, and much of the ordinary avocations of the people had been resumed? Let us consider for a moment in detail how far French industry would be affected.

It may be considered as certain, to begin with, that agricultural operations would not be very much interfered with. To a certain extent the season of the war was favourable to an agricultural country. The summer was far advanced when it began, and the autumn was well over before the levies whose absence would have seriously hindered agriculture were called out. Peace was finally concluded again before the end of February, in time to let the greater part of the levies return for the labours of the spring and summer. In this way the harvest of 1870 was

gathered in somehow, notwithstanding the outbreak of war, and the harvest of 1871 could not have been much diminished by the want of preliminary cultivation. Even in the occupied districts the harvest of 1870 would not be lost, nor would the preparations for the crops of 1871 be much interfered with. As regards the harvest of 1870, the change which was made by the invasion was that the German armies to a large extent reaped it instead of the French farmers, or it was destroyed by the operations of the war. But the losses of this sort have already been counted under the head of direct losses,* and ought not to be counted twice over. As regards the preparations for 1871, the occupied districts stand in much the same position as the unoccupied, peace having been concluded in time to let the bulk of the labours of the season be proceeded with, and the occupation in no way preventing the return of the farmers to their work. There is no reason to believe that even in the occupied districts there was any material suspension of agricultural industry beyond what took place in other parts of France.

How much, then, would the suspension come to even on an extreme calculation—on the basis, that is, of all labour being stopped in proportion to the withdrawal of agricultural labourers for the numerous levies that were raised? Agriculture is unlike manufacturing in this respect, that its existence from day to day does not depend on the freedom of credit and perfect freedom of communication. These things are in the end important, but they can be borne for months without more than the most passing damage, if the farmer ultimately gets a market for what he does not consume himself, and the facilities of credit and free

* See p. 7.

communication are again opened up. The loss, then, could hardly be greater than in proportion to the withdrawal of hands, and the withdrawal could hardly be more than about one-twelfth of the whole. The agricultural population of France is about three-fifths of the whole, or about 22,000,000, of whom about 5,400,000 would be adult males engaged in the actual work of production. Possibly we ought to include the estimate of a large amount for female labour and for the labour of grown-up children, but our case is quite strong enough as to the small effect which the withdrawal of the levies would have on agricultural industry if we take the usual supply of labour at only 5,400,000 hands. The total new levies for the war being about 800,000, the proportion from the agricultural districts would be 480,000, which is almost exactly one-twelfth of the above total of 5,400,000 labourers. Assuming, therefore, that the diminution of agricultural labours for one year was one-twelfth—which is a strong assumption, as the labourers were only away for eight months, and that not for the best part of the season—we may estimate very quickly the loss of income that would be occasioned. The "net annual value" of the rural property of France is £106,000,000,* which, according to the usual mode of reckoning, shows a production of three times that amount, or £318,000,000. One-twelfth of this sum would be £26,500,000, which would be the maximum loss of agricultural income—apart from the amounts paid in requisitions and fines—occasioned to France in the war of 1870-1871. For the reasons above stated, however, the loss, it is believed, could not be so much. It is no doubt true that in exceptional districts, to

* See Reports on Land Tenure in different countries in Europe, and Mr. Goschen's Report on Local Taxation.

which the services of the Peasant Farmers' Seed Fund were so useful, there was a great hindrance to production in the want of seed, owing to the thoroughness of the Prussian perquisitions; but in the absence of all reports as to large areas of land being left uncultivated, we may conclude that this cause exerted an almost inappreciable influence in comparison with the extent of French agriculture. Except in isolated cases, the war left the French agriculturists wealthy enough to resume their pursuits, and purchase seed and stock—the requisitions in the invaded districts, £13,000,000, and the destruction of property, £5,600,000, being, after all, barely 6 per cent. of the agricultural production of the whole of France for one year, and barely 12 per cent. of the production of the invaded districts.

We may set down, then, about £26,500,000 as the maximum loss of agricultural income. Reckoning in the same way the manufacturing loss, viz., in proportion to the withdrawal of labour, or about one-twelfth of the total production, we should have to add to this sum about £23,500,000, making the total loss of income by this mode of reckoning £50,000,000.* But the loss of manufacturing income would of course be greater, manufactures being so much more sensitive than agriculture to the disturbance of invasion. Without credit and without the means of communication, manufacturing establishments must be closed. Neither purchases nor sales except to a limited amount are made with ready money, and even if they could be made, war and invasion would prevent the conveyance

* We estimate the manufacturing production at £282,000,000, making up, with the above sum of £318,000,000 allowed for agricultural production, the total of £600,000,000, which we have taken as the aggregate income of the French people.

of raw material and manufactured articles to and from distant spots which is essential to the life of any large trade. No doubt there are many industries which will go on as usual, the dealing from day to day in the necessaries of life going on nearly to as great an extent as before, and generally all retail commerce, as was the case in Paris during the siege, being more or less active. In the unoccupied districts, too, manufacturing enterprise would only be partially suspended, though it would, on the whole, be much less profitable than before; and the Germans, it is known, managed to prevent the complete suspension of business not only in Alsace, but in such advanced towns in their occupation as Rheims and Rouen. If we estimate that outside the invaded districts, including Paris, business was one-fourth suspended for eight months of war, and that where the invasion extended it was three-fourths suspended for the same period, the estimate would hardly seem to be the least under the reality. But this would only make the loss of manufacturing income about £93,000,000, viz. :—

| | |
|---|---|
| One-fourth of manufacturing income in unoccupied districts (£140,000,000 annually*) for eight months ... ... ... ... ... ... | £23,333,000 |
| Three-fourths of manufacturing income in occupied districts (£140,000,000 annually*) for eight months ... ... ... ... ... ... | 70,000,000 |
| Total ... ... ... ... ... ... ... ... | £93,333,000 |

Adding this sum to the above total of £26,500,000 allowed for the loss of agricultural income, we obtain as the figure

* Practically about one-half of France in population was occupied or besieged by the German troops, and the districts thus dealt with included Paris, Rouen, Rheims, Nancy, and other important towns, Paris itself being by far the most important manufacturing city in France. We assume, then, that half the manufacturing production was in the occupied and half in the unoccupied districts.

for the total loss £119,833,000, which is about £30,000,000 less than the sum we arrived at above by drawing what appears to us a legitimate inference from the diminution of national revenue. If we remember, however, that the suspension of manufacturing enterprise would continue for some months in 1871 after the war was over, and that in the present mode of computation we have only been dealing with a period of eight months, whereas the former estimate applied to the whole of 1870 and 1871, it will be recognised that the results of the two methods of computation very nearly correspond. So far as we can judge, £150,000,000 will be about the mark.

There is one circumstance which may, perhaps, throw doubt on this conclusion, unless explained. The exports and imports of France have not diminished as we should expect them to do with the diminution of manufacturing production. The exports and imports of the last three years compare as follows:—

| | 1871. | 1870. | 1869. |
|---|---|---|---|
| **Imports for Consumption.** | 1000 frs. | 1000 frs. | 1000 frs. |
| Articles of food... ... | 983,677 | 720,844 | 693,828 |
| Raw materials and natural productions | 1,862,296 | 1,679,988 | 2,030,618 |
| Manufactures ... ... | 314,591 | 218,560 | 264,616 |
| Other articles ... ... | 232,685 | 161,918 | 164,009 |
| Total ... ... | 3,393,249 | 2,781,370 | 3,153,071 |
| **Exports of French Productions.** | | | |
| Manufactures ... ... | 1,620,911 | 1,562,429 | 1,756,320 |
| Articles of food, raw materials, and natural productions ... | 1,110,522 | 1,181,848 | 1,185,667 |
| Other articles ... ... | 134,180 | 115,850 | 132,954 |
| Total ... ... | 2,865,613 | 2,860,127 | 3,074,941 |

These are not the figures of a trade which has diminished; it is rather an increasing trade. But the explanation is very simple. One is, that great internal losses would be likely to cause a large export for realisation, while after the war was quite over the imports would at first increase largely, in order to replenish stores and warehouses and set many establishments going. Another explanation of the increased external trade is also to be found in the fact that two provinces between which and the rest of France there was formerly a most intimate home trade have, for the first time, become external; so that what was formerly home trade is now reckoned as foreign. In reality, the figures prove a falling-off of business, though the exact amount cannot be stated, and may not correspond exactly to the exact diminution of manufacturing production in France in the years of war.

So much for the loss of income sustained by Frenchmen during the war. But not only does the suspension of business by war and invasion cause a loss of present income to a community, it entails a permanent depreciation of producing power, that is, of the annual income which the community is capable of earning—on which some estimate ought also to be placed. It is certain that some such depreciation is certain to occur. The connections of great establishments are destroyed, the staff is broken up, many labourers have been killed or injured, the business which is resumed after a war, at any rate after so prolonged an interruption of its usual course as French commerce sustained, is never precisely the same as it was before the war. Of course any estimate of the present capital value of an annual loss of income of this kind must be very wide indeed. Fortunately there is one French tax which appears to supply data for such an estimate. We refer to the Trade

Licence Tax, which applies a varying scale to nearly every class of merchants and traders, according to the size of the towns in which they reside and the nature of business they pursue. Any great convulsion in business diminishing the amount of its profits must seriously affect the tax: many traders will be declassed; others will be driven from business altogether and occupy the place of labourers or assistants to larger capitalists; there will be a great deal of migration, during which capital will be locked up, or at least will be less productive. There will also be a great deal of emigration which will have the same effect, even if the emigrants, as will probably happen, should ultimately return. All the changes will cause the licence tax to be less productive, though perhaps the diminution may not go quite so far in proportion as the diminution in the earning power of the community. The scale of the tax remaining the same, and most people refusing to change their business even if they make less out of it than before, the result will be that the tax will yield nearly the same as before in proportion to the numbers affected, but those who pay it may all be somewhat poorer. Insufficient as the test is, however, it is the only one we have got, and it is perhaps better than none. The way to apply it will be to calculate what the annual loss of the business income of France will be if it suffers in the same proportion as the licence tax, and then multiply the sum so obtained by the number of years' purchase we may consider the income to be worth.

According to the Budget of 1872, the loss on the "principal" of the licence tax due to the general effects of the war is between 3 and 4 per cent. The total deficiency, as compared with the estimate for 1871, which was made before the war, is £168,800, equal to 7 per. cent on a total yield of £2,462,000; but of this deficiency, about £80,000,

or 3·3 per cent., is caused by the transfer of Alsace and Lorraine to Germany. There remains, therefore, only £88,000 which can be ascribed to the general effects of the war, and the per-centage of this loss is about 3·7, or say 4 per cent. If this test is fairly applicable, then we may assume that France has lost about one twenty-fifth part of its earning power in business in consequence of the war—that is, one twenty-fifth part of the above annual sum of £280,000,000 which we have reckoned as the income of the French people, independently of their agriculture, or an annual loss of £11,200,000. How many years' purchase must we reckon to ascertain the equivalent capital value of this loss? This point must plainly be left a good deal to conjecture, but the equivalent, we should think, will be at the very least ten years' purchase, making the loss £112,000,000. The value of businesses reckoned by multiples of the annual income yielded varies indefinitely, and perhaps ten years' purchase would be too high an average in such a country as England, where profits are large in consequence of the large amounts which traders are able to borrow in addition to the capital they themselves embark; but in a country like France, where there is far less credit, and business capital, amount for amount, is consequently less profitable, ten years' purchase is probably rather too little than too much. At any rate, it does not appear extravagant to reckon that a war like last year, and the invasion which followed, besides the immediate loss of income and heavier taxes which they entailed, should have cost the business men of France the equivalent of £112,000,000, or £11,200,000 per annum. There must have been a large loss of some kind on this head, and we do not see how it can be reckoned at less.

Probably the agricultural income of France may have

permanently suffered in the same way, but it can hardly have suffered much, being almost independent of the credit and connections which make the life of business. A long-enduring war would have injured agriculture greatly, especially the culture of the grape, through the loss of markets and the displacement by competing vine districts, but a single winter's war could have no such effect.

We have still one more head of indirect loss to consider, viz.: the loss of life and the invaliding of wounded and sick. But we must pass these over very slightly, as losses on which no pecuniary value can properly be placed. We subjoin a calculation of what the capital value of the lives affected by death or invaliding in the French Army may come to:—

Estimate of money value of lives destroyed or injured in French Army:—

| | |
|---|---|
| 30,000* killed ... ... ... ... ... ... ... ... | 30,000 |
| 30,000* totally invalided ... ... .. ... ... .... | 30,000 |
| 90,000,* about one-eighth invalided on the average | 10,000 |
| Complete lives destroyed (say) ... ... ... ... | 70,000 |
| Average earning power, £40 per annum ... ... | £40 |
| Total annual loss ... ... ... ... ... ... ... | £2,800,000 |
| Present value of annuity of £1 on single life at age of 25, and reckoning 5 per cent. (Carlisle Tables) | £15 |
| Estimated capital value of lives lost or invalided | £42,000,000 |

The total is £42,000,000, and we doubt if the loss or injury of life in an economic sense could be more. Still the calculation must only be taken for what it is worth, an imperfect

* According to these figures, our estimate of the total killed and wounded in the French armies, is 150,000, but there are few official data, and we have been obliged to make the best estimate we can from scattered and contradictory notices in books on the campaign. The German losses, reckoned in the same way, were about 100,000.

way of representing in money the material loss which is certainly occasioned by the destruction of human life. In addition we should probably reckon that the loss and injury of life among civilians produced a similar loss. In Paris alone it is reckoned that the additional deaths due to the war were as follows in 1870 and 1871:—

| | |
|---|---|
| Deaths in 1870 ... ... ... ... ... ... ... ... | 73,581 |
| Ditto 1871 ... ... ... ... ... .. .. ... | 99,945 |
| | 173,526 |
| Less average mortality of two years ... ... .. ... | 90,000 |
| Total due to war ... ... ... ... ... ... ... | 83,526 |

There must have been great injury to life beyond this where the additional mortality is so large. Throughout the country and in the numerous besieged places there would be a similar loss of civilian life by privations, but considering that Paris was exceptionally tried, and that the above total of 83,000 would include the deaths of the soldiers in Paris, it would, perhaps, be unsafe to put the total deaths throughout France owing to the war at more than 200,000. And of these one-half would be aged, of hardly any economic value compared with the young, whose expectation of life is at its highest.* Taking the loss of civilian life, therefore, as the basis of the preceding calculation at 100,000 units, the present capital value would be £60,000,000, which will fall to be added to the above £42,000,000 of Army loss—in all £102,000,000. We repeat,

* Since this was written the fact of an unusual mortality having been occasioned directly and indirectly by the war, has been confirmed by the Census Returns of 1872.

however, that this calculation is only given *pour mémoire*, and to render a little more definite the conception of the losses which are involved in war. It should be remembered, besides, that part of the losses on this account —so far at least as they affect the surviving community— must have been reckoned under the previous head, there being nothing to distinguish the failure of the licence tax through the death or invaliding of the licencees from the failure which is due to more general causes. In any general sum of the expenses of the war it would be improper to include both items to the full amount if they could be exactly ascertained.

The indirect losses of the French, therefore, in the war omitting any direct estimate for the value of lives lost or injured, may be summarized as follows:—

| | |
|---|---|
| 1. Loss of income in 1870-71 ... ... ... ... | £150,000,000 |
| 2. Loss of permanent business, equal to... ... | 112,000,000 |
| Total Indirect Loss (say) ... ... ... ... | £262,000,000 |

We come, then, to the German losses of a similar nature, which may be very shortly dealt with. The principal causes of the great loss which France has sustained did not affect Germany. These causes, as we have seen, were not so much the abstraction of labourers from their employments, as the suspension of business through invasion. The loss of life in Germany was, moreover, confined to the Army, the privations of civilians, at least, being of the most insignificant kind compared with French privations. The indirect loss of Germany may therefore be summed up in the loss by abstraction of labourers, equal to estimated loss of France as above, or about £50,000,000; the loss by deaths and invaliding of soldiers, which we mention *pour mémoire*,

would be about two-thirds of the estimated loss of France as above, or about £30,000,000.

We do not think it would be of any use reckoning anything beyond this for the suspension of business in Germany. Business, in fact, went on pretty much as usual. Though the German ports were blockaded, the ports of Belgium and Holland were open, and Germany retained all its land communications unimpaired. Loss, therefore, could hardly arise except to a quite inappreciable extent, for which it would not be worth while to make allowance. There is the more reason for this, too, because it is more than doubtful whether the loss by the abstraction of labour is not over-estimated, the labour having been abstracted, as we have already explained, at the season least injurious to agricultural pursuits. So far as any loss of the kind could be traced in its effect on German revenues, we have no data to go upon, the receipts of the various Governments having gone on increasing as if there had been no war.*

We may end our inquiry into the indirect losses at this point. No doubt other countries besides France and Germany were made to suffer—England especially; but the amount of the injury, even if not compensated by some indirect gains consequent on English manufactures temporarily or permanently displacing those of the belligerents, is lost in the enormous magnitude of the business over which the loss would be spread.

* Something should perhaps be added for the indirect manufacturing losses of Alsace and Lorraine, but business there was not nearly so long disturbed as in the non-ceded districts of France, and the above allowance for German indirect losses is believed to be liberal enough in any case to cover those of the newly-acquired province.

## *III.—GENERAL SUMMARY OF THE COST OF THE WAR.*

HAVING thus gone through the various items of expense and loss consequent on the war, we may see what the whole amounts to. The totals are as follows :—

| | | |
|---|---|---|
| FRANCE. | | |
| Credits for carrying on war, re-equipment, and the like ... ... ... ... ... ... ... | £120,000,000 | |
| Requisitions and fines levied by Germans and destruction of property in the war ... | 44,000,000 | |
| Capital value of war pensions ... ... ... | 5,000,000 | |
| Indirect losses, omitting estimate for loss of life ... ... ... ... ... ... ... ... | 262 000,000 | |
| Total for France ... ... ... ... ... ... ... | | £431,000,000 |
| GERMANY. | | |
| Credits for carrying on war and for re-equipment ... ... ... ... ... ... ... | £60,000,000 | |
| Capital value of war pensions ... ... ... | 5,000,000 | |
| Indirect losses, omitting estimate for loss of life ... ... ... ... ... ... ... ... | 50,000,000 | |
| Total for Germany ... ... ... ... ... ... ... | | 115,000,000 |
| Grand total of cost of war ... ... ... ... ... | | £546,000,000 |

At this rate war is not so very cheap as it appeared when we looked only at the direct expenditure. It cost the two belligerents in seven or eight months about half their gross income, and such figures imply a very large exhaustion of stored-up capital. Even at this rate, however, it would no doubt have taken a long time to exhaust the material resources of France and Germany.

## *IV.—THE PERMANENT LOSS OF CAPITAL.*

Up to this point we have been discussing the mere cost of the war, without any reference to the funds out of which it was to be defrayed. As we have already explained, the two questions are entirely distinct in theory. A very costly war may result in little or no permanent loss of capital, the belligerent nations paying the expense entirely out of their income, and likewise saving out of their income enough capital to compensate those indirect causes of subsequent annual loss which we have discussed at so much length. On the other hand, a very cheap war may prove burdensome from the mode of dealing with its finance. A nation may go on living as usual, and the capital burden will then prove very heavy. What usually happens, in fact, is the submission by the generation which carries on a war to the *quasi*-necessity of bearing a large part of the cost. The Governments, to secure credit for borrowing, if for no other purpose, must go as far as they prudently can in imposing taxes. Individuals who suffer loss of income have often no capital which they can trench upon, and will they nill they, must adjust their expenditure to their income. Those who have capital will try every possible expedient to keep it from diminishing. It is in this way that war, as a rule, is so quickly recovered from. A large part of the cost figures only as so much privation of those who carry it on.

Going over the items constituting the above total of £546,000,000 *seriatim*, we believe it will be found that a very large part indeed is not a permanent loss of capital, but is exclusively a loss endured at the time by the various victims of the war. Taking first the French expenditure, the principal item which became a permanent loss appears

to be the direct expenditure by the Government, amounting to £120,000,000. No part of the extra war expenditure either of 1870 or 1871 was provided out of revenue. As regards 1870, the case stands thus:—

BUDGET OF 1870.

| | |
|---|---|
| Amount of peace expenditure ... ... ... ... | £72,440,000 |
| — war expenditure ... ... ... ... | 62,840,000 |
| Total expenditure ... ... ... ... ... | £135,280,000 |
| Estimated receipts, exclusive of loans ... ... | 61,040,000 |
| Deficit ... ... ... ... ... ... ... ... | £74,240,000 |

The receipts were thus insufficient to meet the current peace expenditure, much less defray any portion of the war expenditure.

As regards 1871, the account will stand:—

BUDGET OF 1871.

| | |
|---|---|
| Rectified amount of peace expenditure ... ... | £70,840,000 |
| Amount of war expenditure ... ... ... ... | 35,082,000 |
| | £105,922,000 |
| Estimated receipts, exclusive of loans ... ... | 66,800,000 |
| Deficit ... ... ... ... ... ... ... ... | £39,122,000 |

Here, again, the estimated receipts are insufficient for the current peace expenditure.

The whole war expenditure of the two years has thus been defrayed by borrowing, and constitutes a permanent burden on the country.

The second important item is the sum of £44,000,000 for fines and requisitions, but a large part of this amount, if not the whole, will probably be defrayed out of revenue. This would be the case with the French taxes levied by the

Germans, and a large part of the requisitions, losses by fire and war, and the alleged plunder of the Germans, would be dealt with in a similar manner by the individuals concerned. They make claims for reimbursement against their Government, but in the meantime they have charged the expense to revenue, and not to capital. How much has gone to the one account and how much to the other it would be impossible to say, and to divide the amount equally between the two heads where there are absolutely no data will perhaps be the safest plan. On the other hand, the Parisian contributions of £12,000,000 have certainly been charged against capital. The whole item of £44,000,000 may therefore be distributed as follows:—

| | | |
|---|---|---|
| CHARGED AGAINST CAPITAL. | | |
| Parisian contributions ... ... | £12,000,000 | |
| One-half of remaining items ... | 15,064,000 | |
| | | £27,064,000 |
| CHARGED AGAINST REVENUE. | | |
| Taxes levied by Germans ... ... | £1,960,000 | |
| One-half of remaining items ... | 15,064,000 | |
| | | 17,024,000 |
| Total as above ... ... ... ... ... ... | | £44,088,000 |

The direct expenditure of Germany, £60,000,000, was also defrayed entirely by loans, or by contributions of the French indemnity, which were entirely supplied out of special loans raised by the French Government.

The remaining item of £10,000,000 which we have mentioned as the capital value of the new war pensions is also a capital charge.

We come, then, to the indirect expenditure. The loss of income through the suspension of business was substantially a charge on the income of individuals. Many people, as we

have explained, had no capital to fall back upon, and the unwillingness of owners of capital to trench upon it is also quite intelligible. In fact, all accounts from France agree in the statement that nothing could exceed the desperate pinching of the people during the progress of the war. Some capital, however, must have been lost through this loss of income, in consequence of savings which would otherwise have taken place not having been made. All the usual savings would not be prevented, the pinching being most unequally distributed, but say two-thirds were prevented. We should then have a loss of capital due to this cause amounting to about £60,000,000, the annual savings of France being at least £60,000,000, if not more, so that the usual savings for eighteen months would be £90,000,000.

On the other hand, while Frenchmen individually may have pinched to the extent of the £150,000,000 which we have estimated as their loss of income, they increased the burdens of the State by not paying taxes enough to meet the usual peace expenditure. The difference on this head in 1870 was £11,000,000, and in 1871, £4,000,000—a total of £15,000,000 falling to be added to the amount of savings prevented. We must also deal in the same way with £4,000,000 of Paris revenue lost, making the total charge to capital £79,000,000.

The second item of indirect loss, amounting to £112,000,000, is also a charge on capital, representing a permanent deficiency of earning power.

As regards German indirect expenditure, it may be considered that in the circumstances it has nearly all been borne by income. £50,000,000 is not a very large deficiency, and would be easily covered by the privations of those concerned, while the saving of other classes in the

actual circumstances of the war may have gone on as usual. We may divide the amount equally, however, between capital and revenue.

Summarizing the account just given, the whole war waste, exclusive of the value of destroyed or injured lives, will have been borne by capital and revenue as follows:—

| | Capital. | Revenue. |
|---|---|---|
| **France.** | | |
| Direct war expenditure of France ... | £120,000,000 | ..... |
| Requisitions, fines, &c. ... ... ... | 27,062,000 | £17,022,000 |
| War pensions of France ... ... ... | 5,000,000 | ..... |
| French loss of present income... ... | 79,000,000 | 71,000,000 |
| Capital value of depreciation of French earning power ... ... ... | 112,000,000 | ..... |
| **Germany.** | | |
| Direct war expenditure of Germany | 60,000,000 | ..... |
| German indirect losses ... ... ... | 25,000,000 | 25,000,000 |
| War pensions of Germany ... ... | 5,000,000 | ..... |
| Total for France and Germany... | £433,062,000 | £113,022,000 |

Four-fifths of a total expenditure of £546,000,000 which we consider to be the expenditure, exclusive of lives destroyed, may thus be considered a capital charge upon the resources of the communities concerned. It is probably equal to about five years' savings of France and Germany combined.

The distribution is, of course, very unequal, the capital loss to France being £343,000,000, and to Germany only £90,000,000; and the revenue loss to France being £88,000,000 against £25,000,000 primarily paid by Germany. But this and other inequalities in distributing the burden, we reserve for further discussion.

We need state very briefly the conclusions from these facts. Even a loss of capital of £400,000,000 cannot be

considered a very serious drain on the resources of two such countries as France and Germany. Four years' saving will very soon be made up, say in two or three years, for one-fourth of the loss consists of savings prevented during the period of the war, viz.:—

| | |
|---|---|
| French savings prevented ... ... ... ... ... | £79,000,000 |
| German „ „ ... ... ... ... ... | 25,000,000 |
| Total ... ... ... ... ... ... ... ... | £104,000,000 |

so that there is only £300,000,000 of actually stored-up capital wasted, and requiring to be made good by subsequent thrift. In three years, then, the people of the two countries should be as well off as they were before the war, if no other circumstances had to be considered. The war would still have injured them and thrown them back. Although in three years' time they might have been as comfortable as they were before the war, they would not have been exactly as if the war had not happened, because the intermediate savings which now make good a past loss would wholly or in part have been added to the previous wealth. Probably at some early date they might have caught up their lost ground in the race by more energetic saving, so that there would have been little permanent loss of capital after all. Such saving would of course increase the amount of the losses of the war which would have been charged to the revenue of the existing generation, but the effect in diminishing the permanent loss of capital is all that we are now considering.

Nor could the loss of permanent capital be thought very severe if it had fallen on the two nations in the proportions originally defrayed by them. To Germany the loss would only have been £90,000,000, viz.:—

£60,000,000 for direct expenses.
5,000,000 for war pensions.
25,000,000 for indirect expenses.

£90,000,000 in all,

—which is no very great amount, probably about one and a-half years' savings. To France the loss would have been four times as great, viz.:—

£120,000,000 direct Government expenses.
5 000,000 war pensions.
27,000,000 requisitions, &c.
79,000,000 present income charged to capital.
112,000,000 depreciation of earning power.

£343,000,000

—or about one-half more than if the amount had been equally divided, and equal perhaps to five years' savings instead of three. France therefore might have been expected to take two years more to recover than if that equal division had taken place. That is to say, it would have been five years after the war instead of three before the lost ground was recovered. No doubt the means of saving would be diminished by the interest which must be paid on the lost capital, but the former rate of saving, as we have already explained, will, for other causes, be increased rather than diminished.

We have still, however, to look at the subject from another point of view. The arrangements at the peace have complicated the question by shifting the burden, and perhaps more than the burden, on to the shoulders of only one of the belligerents. What changes have thus been made

in the effects of the war losses, both as respects the total charge, and as respects the permanent loss of capital which each has to bear?

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## *V.—THE INDEMNITY AND CESSION OF TERRITORY AND THEIR RESULTS.*

THERE are two ways in which the incidence of the burdens of the war was changed by the terms of the peace. One of these—the money indemnity—is very easily described. In addition to all their other burdens and losses, the French people were made to pay to Germany a sum of five milliards of francs, or two hundred millions sterling. Germany had so much less to pay, and France had so much more. And there are no qualifications or deductions to be made. The value of the Alsace and Lorraine Railways, amounting to £13,000,000, was indeed deducted, but only as between the Governments of France and Germany. As they belonged to a French company which had other lines in French territory, and had close connections with the French Government, Germany preferred to buy them, and instead of doing so by an actual payment in cash, deducted the value from the money indemnity it had to receive. But the French Government in turn had to come under obligations to the Railway Company for the amount. It bought the railways at a stipulated price, and transferred them to Germany at the price of £13,000,000, in place of paying Germany so much money. This was no real deduction from the total indemnity of £200,000,000 which was stipulated to be paid. Nor are any deductions, at least none worth speaking of, to be made on account of delay

in the terms of payment. The stipulations of the Treaty are precise—£40,000,000 to be paid within a year, and the remaining £160,000,000 within three years after ratification, but of this latter amount £120,000,000 is to bear interest at 5 per cent. from the date of the Treaty till payment. Any deductions, therefore, to be made for delay in payment apply only to a sum of £80,000,000, and of this sum £40,000,000 was in any case to be paid within a year, while the guarantees for paying the remainder were so stringent that the French Government in fact took care to pay the whole £80,000,000 by the beginning of March in the present year [1872]. The haste of payment caused the French to pay a good deal on account of commissions to bankers and loss by exchange, and these are a set-off against any advantage gained by having to pay no interest from the 1st of March, 1871, to the time of payment. France has thus had to pay to Germany £200,000,000 net.

The other mode in which the incidence of the war losses and expenses was changed, and the burden shifted from one belligerent to the other, may require a little explanation. This was the cession of the greater part of Alsace and Lorraine to Germany, viz., the departments of Haut-Rhin, Bas-Rhin, Moselle, and parts of Meurthe and the Vosges. The territory in question was ceded without any deduction for the value of the public property it contained, or for the share of the French debt estimated to belong to it, or for its estimated value as a source of revenue. The effect of this arrangement necessarily was to increase the burden of the charges of the French State on the diminished territory and people. The diminished France was also less able to bear any increase of debt and taxes. It may be said, perhaps, that France was additionally burdened by no deduction being made for the debt, but nothing more, as the other

expenses of government ought to be proportioned to the smaller area; but this is a narrow way of looking at the burdens of a great Power. A change of one or two millions in its people either way leaves it in pretty much the same position as it was before as regards its international duties and dangers. It is still practically the same unit, and most of its expenditure must be determined without any reference to the increase or loss of territory. The cession of territory, therefore, is a real loss, and its acquisition a real gain, without any drawback in either case so far as the material resources and taxpaying powers are concerned. France lost and Germany gained in a most distinct and measurable degree by the transfer of the two provinces from the one to the other.

The loss, measured by population, is about the one-and-twentieth part of France. According to the census of 1866, the population then was 38,067,000, and the cession would reduce the number by 1,597,000. As the debt of France after the war is close upon £1,000,000,000, it would follow that the diminished France has, in fact, been burdened with an additional debt of about £50,000,000 beyond what it would have to bear if the provinces had not been ceded. And the total addition to its burdens would be more than double that, as the interest of the debt is only about half the annual State expenditure which the French people have to meet.

There appears to be a more exact way of looking at the matter, however, and that is by comparing the revenue-yielding power of the ceded provinces with that of the rest of France. The comparison is not difficult to arrive at. The State revenue of France before the war was as nearly as possible £75,000,000, of which, as we have seen, the amount yielded by Alsace and Lorraine was £2,400,000. The

ceded provinces, therefore, were hardly equal in economic vigour to the one-and-twentieth part of France, and their share may be more fitly stated at the thirtieth part. Still the deduction of a thirtieth would represent a very considerable sum, and the share of the increased debt alone would be upwards of £33,000,000. Double that amount, as above, would make the French loss of capital by the cession £66,000,000. Perhaps the following will be the most accurate way of arriving at an estimate. The revenue ceded at twenty years' purchase—which is not an excessive estimate for a country which has to borrow at 5 per cent. and upwards—would represent a capital of £48,000,000, but as France has had to increase its revenue one-third, we may consider that Alsace and Lorraine could have paid at least one-third more, or £3,200,000, making the equivalent capital at twenty years' purchase £64,000,000. We may consider, therefore, the loss of Alsace and Lorraine to France as equivalent to a loss of £64,000,000. In the case of any ordinary cession, half of this sum would at least have been allowed as the share of the debt, and the province was at least worth half as much again.

Some small allowance ought perhaps to have been made for the diminished expense of collecting the revenue and the diminution of one or two other charges, but suppose a tenth to be allowed—and this would far more than cover the saving in collecting the revenue—the capital loss to France on account of the cession would still remain about £60,000,000. *Per contra*, however, we ought to have added as part of the French loss the value of national property in the two provinces. The public buildings, fortresses, and similar property represent very large sums, and we cannot be far wrong therefore in retaining £64,000,000 as the figure for the total loss.

Such, then, has been the result of the arrangements for the peace. Germany gets £264,000,000 to set against her outlay and losses, and France has £264,000,000 more to pay. To both countries the change makes an enormous difference in the final accounts of the war.

To begin with Germany, the curious fact will be that the war in a material sense has yielded a profit instead of a loss. Her losses, as we have seen, were only about £145,000,000 (viz., £60,000,000 direct outlay of Government, £5,000,000 for new pensions, £50,000,000 for loss of income and capital, and £30,000,000 for loss of life). The war having brought in £264,000,000, she is a gainer of the enormous amount of £119,000,000. This is putting her loss in the most extreme form. Omitting, however, the very exceptional item for loss of life, the losses and outlay of the surviving community can only be put at £115,000,000, and as they have got £264,000,000, the net gain by the war is £149,000,000, or, in round numbers, ONE HUNDRED AND FIFTY MILLIONS STERLING.

The result is still more striking if we consider only the permanent loss of capital. Germany, as we have seen, lost permanently, that is spent out of capital instead of out of revenue, only about £90,000,000. The above £264,000,000, however, is all capital, so that Germany begins the world again after the war with £174,000,000 to the good. Whatever justice or injustice there may have been in exacting an indemnity from France, there need be no disguising the fact that the indemnity not only makes good losses, but actually enriches Germany. It is about as much to the Germans as two years' arduous savings, if not more, and no such windfall, it may be safely said, ever fell to the lot of any community as the result of seven months' war. To be quite just, we must, of course, recognise that the gain by

such a cession as Alsace and Lorraine is very apt to be lost to the nation, the Government taking care to spend the additional money it gets, and not remit the taxation of its subjects in proportion. Even the gain by the indemnity will be less than a similar accession of capital by industrial savings would be, because it will be received by the Government, and not by individuals. But after all deductions, no such money can come into any State without adding to the general means, and enriching every single member of the community. The prospect of such an indemnity more than justifies the eager expectation with which the Germans have discussed its payment.

What Germany has gained France has lost, and as regards France, the net result must be to swell its already gigantic losses to an enormous total. The whole cost primarily borne, excluding the doubtful estimate for the value of the lives lost or injured, was £431,000,000, viz. :—

| | |
|---|---|
| Direct expenses of Government ... ... ... | £120,000,000 |
| Requisitions, fines, &c. ... ... ... ... ... | 44,000,000 |
| War pensions ... ... ... ... ... ... ... | 5,000,000 |
| Loss of income, 1870-71 ... ... ... ... ... | 150,000,000 |
| Depreciation of French earning power ... ... | 112,000,000 |
| Total ... ... ... ... ... ... ... ... | £431,000,000 |

To which we must now add,—

| | | |
|---|---|---|
| For indemnity ... ... ... ... | £200,000,000 | |
| For ceded territory ... ... ... | 64,000,000 | |
| | | £264,000,000 |
| Total ... ... ... ... ... ... ... ... | | £695,000,000 |

making in all the formidable sum of £695,000,000, or, in round numbers, SEVEN HUNDRED MILLIONS STERLING. This is of itself very nearly as much as the English National Debt, and very much more than the National Debt of

France before the war. Excluding any direct estimate for lives lost and injured, this is the total loss strictly falling upon the surviving French community, and either borne by them out of their current income, or paid by capital on which they will have to suffer a loss of interest in future. The amount is truly enormous,—more than one year's aggregate income of the people, and six times as much as the entire annual revenue of the State, both for national and local purposes.

The permanent loss of capital is almost equally serious. The amount so lost, apart from the indemnity and cession of territory, was about £340,000,000, and the losses now being dealt with being entirely from capital, the total permanent loss of capital will amount to £600,000,000. While Germany therefore starts in the world about £174,000,000 richer by the war, France is rather more than £600,000,000 poorer. In this case there is no doubt about the effect of the loss of territory. Whether the Germans gain by it individually or not, it is certain that every Frenchman loses. The three millions of revenue which the ceded provinces could have been made to yield are missed in the French budgets, and their absence aggravates materially the difficulty of the search for new taxes—in other words, compels the French Government to impose indefinitely more disagreeable burdens on the diminished population than would otherwise have been required.

We can now obtain a comprehensive view of what the war has really cost the French. Divided among a population of 36,500,000, the total of £695,000,000 represents a sum of £19 per head, or, taking the average French family as four persons, a sum of £76 per family. This was the entire cost of the war payable out of revenue and capital, but nearly an eighth was paid out of revenue, and the remainder,

£603,000,000, which is the burden upon capital, represents a sum of £16 10s. per head. The English National Debt at this moment is £26 per head, so that in one short war the French have lost three-fifths as much capital per head as the individual share of the English people in that debt which has hitherto been regarded as the most gigantic and oppressive burden upon the resources of a nation.

In comparison with the aggregate annual income of the French people, the loss is, roughly speaking, about one year's income, and estimating the annual savings at about £60,000,000, must be about ten times the amount of these savings. In ordinary circumstances, therefore, it would take nearly ten years for France to recover lost ground. Without the loss of territory and without an indemnity to pay, the French had lost as much as would probably have taken five years to recover, but the indemnity and the cession very nearly double the wound. For reasons already suggested, the period of recovery may, in fact, be less—will probably be very much less—but the natural effect of the loss is to put France about eight years behind in its industrial career.

The greater part of the capital loss, it should be understood, falls upon France collectively, that is, upon the French State. Of the above total of £603,000,000, only two items will finally be borne by individuals, viz. :—

| | |
|---|---|
| Current loss of income borne by individuals ... | £60,000,000* |
| Other indirect losses .. .. ... ... ... ... | 112,000,000 |
| Total... ... ... ... .. ... ... ... | £172,000,000 |

* The aggregate loss of income was estimated above at £150,000 000, and the amount charged to capital was £79,000,000, viz., £60,000,000 of individual savings prevented, and £19,000,000 charged to the State and to Paris by the payment of taxes being diminished, so that the revenue in 1870-71 was insufficient for the ordinary peace expenditure by £15,000,000.

leaving £431,000,000 to become a charge upon the State. This sum is made up as follows:—

| | |
|---|---|
| Direct expenses of the war ... .. ... ... | ...£120,000,000 |
| War pensions ... ... ... ... ... ... ... ... | 5,000,000 |
| Requisitions, &c. ... ... ... ... ... ... ... | 27,000,000 |
| Indemnity... ... ... ... ... ... .. .. ... | 200,000,000 |
| Cession of territory ... ... ... ... ... ... | 64,000,000 |
| Loss of individual income in 1870-71 thrown on State by diminished payment of taxes ... ... | 15,000,000 |
| Total... ... ... ... ... ... ... ... | ...£431,000,000 |

And the charge upon the State may be increased, and that upon individuals diminished, should the State finally repay not only as much of the requisitions as we have assumed to be charged to capital in private accounts, but the whole amount. That the charge is in no way exaggerated will be readily seen, if we compare the actual cash transactions of the French Exchequer during the last few months with the obligations which are still impending, and if we also inquire into the amount of the annual burden which will now fall upon the State. The accounts of the Exchequer will stand:—

| | |
|---|---|
| In the budget of 1870 the deficiency of receipts, exclusive of loans, was ... ... ... ... ... | £74,240,000 |
| In the budget of 1871 it was ... ... ... ... ... | 39,122,000 |
| The indemnity paid in 1871, deducting value of Alsace and Lorraine Railways, was ... ... ... | 47,000,000 |
| Total actually borrowed ... ... .. ... | ...£160,362,000 |

To this we must add obligations outstanding at end of 1871, and the capital value of annual charges incurred without actual borrowing, viz.:—

| | |
|---|---|
| Indemnity remaining due after 1871 (three and a half milliards) ... ... ... ... ... ... ... | £140,000,000 |
| Value of Alsace and Lorraine Railways ... ... | 13,000,000 |
| New war pensions .. ... ... ... ... ... ... ... | 5,000,000 |
| Requisitions, &c. ... ... ... ... ... ... ... ... | 27,000,000 |
| Ceded territory ... ... ... . . ... ... ... | 64,000,000 |
| Amount of special budget for liquidating arrears of war ... ... ... ... ... ... ... ... ... ... | 20 000,000 |
| Total ... ... ... ... ... ... ... ... | £429,362,000 |

At 5 per cent. the amount would involve an additional annual burden of about £21,000,000, and we find that, in fact, if the charge is less, it is due to a species of forced borrowing from the Bank of France at less than the market rate of interest. The French Government affirms that its agreement with the Bank is no injustice to the shareholders, the monopoly of an extended note-issue enabling the Bank to lend cheaper, but if the monopoly is worth much to the Bank, it would have been worth much to the State, and the transaction is, in fact, a sale by the Government of a certain privilege for the difference between the rate of interest which it does pay and what it would have to pay borrowing at the market rate. The additions to the annual charge of the debt traceable to the war as shown in the budget of 1872 are as follows:—

| | |
|---|---|
| Interest on loan of £80,000,000 (in 1871) ... ... | £5,556,000 |
| „ „ 30,000,000 (in 1870) ... ... | 1,584,000 |
| „ „ 10,000,000 (in 1870) ... ... | 600,000 |
| „ „ from Bank ... ... ... ... ... | 367,000 |
| „ payable to Eastern of France Railway for Alsace Railways ... ... ... ... ... | 650,000 |
| „ payable to Germany on £120,000,000 of indemnity at 5 per cent. ... ... ... | 6,000,000 |
| New military pensions ... ... ... ... ... ... | 148,000 |
| Total new debt charges in budget ... ... | £14,905,000 |

Add,—

| | |
|---|---|
| Alsace and Lorraine revenues lost ... ... ... ... | £3,200,000 |
| Difference between interest paid to Bank and interest payable at 5 per cent. ... ... ... ... | 2,633,000 |
| Interest on requisitions, &c. (£27,000,000) ... ... | 1,350,000 |
| Five per cent. interest on £20,000,000 for special budget to liquidate war-arrears ... ... ... ... | 1,000,000 |
| Total annual charge ... ... ... ... ... ... | £23,088,000 |

The whole charge before the war for "debt and dotations" was £22,300,000, so that it is no exaggeration to say the annual burden has been really doubled by the war and its consequences to France. The whole additional charge which yet appears in the budget is £14,900,000, but more than £3,000,000 must be added for loss of the revenues of Alsace and Lorraine, and even if we add nothing for the interest under-paid to the Bank, there are still two sums amounting together to over £2,000,000 in suspense, which the State must undertake to pay before it can fully discharge all the arrears of the war. If it does not pay the £27,000,000 for requisitions claimed—only a part of the total claim—the charge on individuals and local authorities will be increased, but it can in no way escape the burden of £20,000,000 for liquidating the arrears of the war.

The amount is of course an unprecedented addition to the annual burdens of a people by the events of one calamitous year. Taking it at £22,000,000, it amounts to 12s. 3d. per head annually upon each inhabitant of France, or about 49s. per family. It is nearly equal to the annual charge for interest on the National Debt of England, for though the whole annual charge which appears in our budgets is £27,000,000, yet the interest at 3 per cent. on £800,000,000—and we do not pay so much as 3 per cent.

on the whole of it—is only £24,000,000, the difference between that amount and the actual charge being, in fact, an annual appropriation to repay the capital of the debt. In one year, then, France has added to her annual State burdens, besides the loss of individual capital, as much as the entire charge of our accumulated debt.

Whatever way we look at the matter, then, we cannot but be impressed with the enormous magnitude of the loss which France has sustained. The war itself was not so very costly if both nations had but divided equally the actual outlay of the Governments, and fought their battles on some debateable land without incurring the terrible losses of an invasion. But France was in fact invaded, had to bear the losses incidental to that state, had to pay, as the war went on, a large part of its invaders' costs, and in the end had to pay an indemnity and suffer a loss of territory which nearly doubled its losses. The loss of capital and the addition to the national debt are enormous, while several years must elapse before France, at the ordinary rate of progress, is even at the point of industrial prosperity which she had attained before the war.

A remark or two may be allowed on one or two points suggested by these facts. Will Germany, in fact, really gain much by the indemnity and additional territory in a material point of view? The capital is really a loss to France, and the Germans ought to gain, but will they really do so? If they do not, the transaction will be a net loss to the world, as well as a special loss to France. To some extent it must be so. The money is taken from individuals and goes into the hands of a Government, and this is a disadvantageous change. Even if the German Government uses the bulk of what it receives in paying off the national debts of Germany, so that the money

comes back to individuals again, it will have been a long time *in transitu*—consequently, for a long time in a condition of impaired efficiency. The operation is, therefore, a net loss to the world, and Germany will be far from gaining all that France will lose. We need not add that if the German Government should devote the money to any extravagance —to some fancied Imperial necessity or caprice—the loss will be very serious indeed. The operation will have all the effect of a great loan for a pernicious purpose, and it will make no difference that the Government which borrows is not the Government which ultimately receives the money. So far as matters have yet gone, however, the indemnity appears to be fairly well used in an economic sense, though it is producing some effects which it is difficult to trace. The chief good uses are the establishment of a gold currency for Germany, the repayment of German debts, and as a result of these the reduction of German taxes. By all these operations the money which the German Government has got is being put to useful ends, though it cannot be said it is so useful as it would have been if it had never been transferred at all. Another purpose which the money has been made to serve is of a more doubtful kind. The German Government having large surplus funds in hand has become a lender on a great scale, and is the means of supplying German speculators and traders, and through them speculators and traders in England and throughout the world, with stores of cheap money. The money which Germany pours into the market competes with the ordinary loanable capital, and has prolonged the period of very cheap money which set in with 1867. Is the effect of this diversion of capital in the end to be good or bad? Probably it makes trade more prosperous for a time than it would otherwise be, so that one result of the French

indemnity is to give a bonus to the trade of England, because England attracts the surplus money of the world, but it would be hazardous to say that an effect so artificially produced will in the end prove a benefit at all. Trade and speculation get to depend on the artificial stimulant, and the crash that may come on its withdrawal, of which there was a foretaste last autumn, may more than destroy all the unusual profits it has created.

The second point to be noticed is the probability of France recovering with unexpected speed. At its estimated past rate of saving we have been inclined to give it ten years to recover, and to save £60,000,000 effectually each year it must really save £20,000,000 more than it did before, for there is so much more taxation to pay. But all the chances are that the past rate of saving will be greatly increased. The anxiety of each individual in a nation which is habitually thrifty will assuredly be to make up for the storm which has passed over them by the most desperate industry and saving. They will seek in a year or two not only to recover lost ground, but to place themselves at the point of prosperity which they had looked forward to reach at a given period of their lives. It would not be at all surprising if the phenomenon to be witnessed in France for the next year or two were the multiplication of the national wealth by the doubling or trebling of the former savings of the people. A few years' savings of only £100,000,000 would go a long way to fill up the chasm which has been made in the national resources; and a single bountiful harvest at such a time would be greedily made use of to repair the waste which is still fresh in every one's remembrance. France is very far indeed from being exhausted, though taxes are now difficult to find. A revenue which has augmented a million annually for many years is sure to

have immense elasticity. The existing taxes must soon provide for all needs, if only the fatal habit of deficits in time of peace is scrupulously shunned.

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## *VI.—THE FINANCE OF THE WAR AND THE MONEY MARKET.*

OUR *fourth* question was the effect of the war losses and expenses and the financial arrangements made to meet them on the money markets of the world. Hitherto we have been dealing only with the economic aspect of the war in its most general form—with the effect of losses and expenses which all belligerent communities are liable to feel, whether they possess the elaborate machinery of the modern money market or not. We have now to inquire how that machinery is affected or disturbed by war, and in what special way the last war operated and may still operate. Properly speaking this might have been a branch of the other parts of the inquiry, the losses or gains which arise to the world from war through its influence on the money market being an addition to or a set-off against all the other losses which are otherwise traceable to it, but it is conceived that it would have been inconvenient to deal with the subject in this manner. The losses or gains at the best would be quite incalculable, and the nature of war influences on "money" is in reality so intricate and important a topic as to justify separate treatment.

The common opinion—and in the usual case perhaps the true opinion—about the effect of war on money is very simple. War, it is understood, makes money dear. It creates a new and heavy demand on the circulating capital of the world, and must enhance the value of that capital.

But this opinion carries us a very little way in studying the effects of the last war. The phenomena we meet are various. First came a spasm of dear money just at the outbreak of the war; then a long period of cheap money, lasting all through the war and for some months after it; then another spasm of rather dear money, and again a prolonged period of cheapness. At present it would be hazardous to say that it now tends in any way to make money perceptibly dearer. It may be said that after minor fluctuations economic theory will come right in the end, but the circumstances are perhaps enough to raise a doubt of the universal applicability of the theory. It is plain that in a war like the last it will be more practical to understand the laws of variation from the usual result than to rest contented with the knowledge of what the usual result may be.

To understand the matter thoroughly, it is submitted, the money market must be looked at in two different aspects. There is first of all its singular liability to momentary and superficial disturbance. The money markets of the world are now so much interconnected as to make practically but one market, with London for the centre, and the organisation of this central market is of the most delicate sort. It is so contrived, by means of a hierarchy of banks and discount houses centring in the Bank of England, that in ordinary times the money it contains is made to go as far as possible, but when anything goes wrong the strain is very severe. The complete abstraction of any considerable amount, though it may be small in comparison with the aggregate transactions of the market, may disturb largely the current relations of supply and demand, and its effect will be multiplied tenfold by the sensitiveness of all concerned and the precautions they are induced to take. The natural structure of the market is such that this liability to

disturbance must always be great; but, as if to intensify the evil, the natural means by which a sudden demand could be tided over and alarm allayed has been artificially destroyed. The expansion of the note-issues of great banks, when there is a sudden demand for money and the credit of the note is not shaken, is the obvious method of meeting a sudden strain, but Peel's Act forbids the exercise of any such power in London by the bank which has the monopoly of issue. Now that the inelasticity of the Act has become familiar, each sudden disturbance is liable to be increased in severity by the knowledge of all concerned that the natural remedy for it cannot lawfully be used. The second aspect of the market is the more general and important one of steady and periodic change, according as the supply of circulating capital exceeds or falls short of the demands of borrowers in the market. We must make a broad distinction between these two different aspects of the market in studying the effects upon it of war or of any other cause which produces large financial operations.

As respects the first aspect of the market, we do not think there can be any doubt as to the probable effect of a great war. It can hardly fail to cause the most serious spasmodic disturbance and a short period of dear money. Many of its demands are likely to be of extreme urgency, and the precautions which its outbreak and some of its incidents necessitate on the part of all who have money engagements to meet are also likely to be extreme. There is something formidable in the very name of war. But the dear money thus produced is only temporary and occasional, unless perhaps the temporary panic should be converted into a prolonged convulsion, a possibility which may be sometimes very threatening.

The effect of war on the money market, looked at in its

second aspect, does not appear to be so clear. No doubt war absorbs capital, and the natural tendency of such an absorption, whether resulting from war or any other extravagance, should be scarcity of capital, for which accordingly higher rates would be charged. But when we examine the matter carefully we find that the effect of the absorption of capital is one of circumstances and degree. Much will depend on the amount of the war requirements, and great as these often are, we should not forget the magnitude of the market out of which the supplies have to come. Though the market may be so delicate as to quiver to a sudden demand of insignificant amount compared with its total business, its real resources are enormous, and if time is only given the most extravagant expenditures may be supplied without a shock. For such a purpose, it may be repeated, all the markets are one. Even if France and Germany had been unable to launch their loans in London, they would still have supplied themselves from the common resources of the European markets. French and German securities would have been sold abroad that Frenchmen and Germans might subscribe to their own loans, and as regards any effect on the money market, this is almost an equivalent process to having a loan subscribed in London. The question of circumstances is even more important. According as the war comes at a period when the current savings of the chief industrial communities are small or great, its effects will be serious or the reverse. If savings are abundant, the expenditure may be met out of surpluses which it might otherwise be difficult to employ. What is perhaps still more important, there is one secondary effect of war which in the actual circumstances of modern industrial societies will always help to counteract the tendency to dearer money which is the direct consequence of the war expenditure itself. This secondary effect is the

diffused apprehensiveness and limitation of enterprise which war on a great scale between two leading members of the society of nations invariably produces. As thus viewed, war provides the capital for its own sustenance by checking the employment of capital in other directions. It may be quite true, perhaps, that all the while the belligerent communities gradually get poorer, but this process appears to be really consistent after all with an easy money market. So long as capital is found for war by withdrawing it from other pursuits, the effect on the borrowing and lending markets will be *nil*. People will have less to borrow and lend, but the supply will be adjusted to the demand, and the rates will not be dearer. It would be the tendency of a prolonged war, of course, for the demand to outrun the process of diversion from other pursuits, but until that process is outrun, money will not grow dearer. The point is that war, to cause dear money, must not merely produce a great demand—it must produce a certain excess in the whole demand for capital, whatever causes may be operating at the time to increase the supply or to diminish other demands.

The phenomena of the war and its after-effects, up to the present date, suggest and confirm these views. And *first*, as to the influence of war in causing spasmodic disturbance. The first monetary spasm in the war, in July, 1870, was clearly due to the precautions forced upon people who had money engagements to meet. War was declared upon the 15th of July. On the 21st the Bank of England rate was raised from 3 to 3½ per cent.; on the 23rd, to 4; on the 28th, to 5; and on the 4th of August, to 6—the rate having thus been doubled in little more than a fortnight. All happened long before the great spending and borrowing on account of the war began, and the cause was notorious

and palpable. As the *Economist** at the time explained, we were "receiving securities from borrowers on the Continent, "who think that money is more easily procured in London "than elsewhere. These borrowers are mostly persons "under heavy liabilities, and they send for cash in time of "danger because they feel that at any moment they may be "asked for cash themselves." At the same time, foreign bankers having bills on London sent them in for payment, and did not take fresh bills, the same end of providing themselves being thereby secured. The demand for gold was also increased in London by the Bank of France exercising its option of paying in silver. In other words, the crisis in London was intensified by the precautions of the Bank of France, which undoubtedly would have taken another form had not this been open to it. We see, then, in a moment, how war produces a spasm of dearness without any of the expenditure which will ultimately act on the market having even begun. Of course, the demand once begun, was increased by the precautions of people at home, and so the effect was great and immediate. But a disturbance of this sort is very soon over. A week after the rate was at 6, it was reduced to $5\frac{1}{2}$; a week later, viz., on August 18th, it was reduced to $4\frac{1}{2}$; on August 25th, to 4; on September 1st, to $3\frac{1}{2}$; and finally, on September 15th, to 3 per cent., the Bank all through having followed the open market somewhat tardily, but the whole period, nevertheless, commencing on July 21st, and terminating on September 15th, having lasted less than two months. Taking it that the crisis was really over when the rate was reduced to $4\frac{1}{2}$ on August 18th, the disturbance had, in fact, only lasted a month.

* *Economist*, 23rd July, 1870.

The second disturbance was in no way more prolonged, and though it arose in a somewhat different way, was distinctly traceable to a cause characteristic of the war. The Germans in the autumn of 1871 were receiving payment of a large part of their war indemnity. Besides the fine of £8,000,000 on Paris stipulated in the armistice, and the other fines and taxes levied in the occupied districts of France subsequent to the peace preliminaries on 26th of February, 1871, estimated according to the table in the Appendix to amount to £450,000—

| | |
|---|---|
| Viz.: Contributions ... ... ... ... ... ... ... | £59,000 |
| Direct taxes ... ... ... ... ... ... ... | 285,000 |
| Indirect taxes ... ... ... ... ... ... ... | 106,000 |
| | £450,000 |

besides likewise the sums paid by the French Government for the expense of the German army of occupation, which must have amounted at least to five or six millions more—the Germans in 1871 received altogether from France and on account of the indemnity alone the large sum of £47,000,000 *in cash or bills*. This amount was paid, with the exception of a sum of £5,000,000, between the 27th of June, when the £80,000,000 loan was subscribed and the first days of September, in the following form:*—

| | |
|---|---|
| Cash paid at Berlin ... ... ... ... ... ... ... | £316,000 |
| Commercial bills ... ... ... ... ... ... ... | 32,915,000 |
| Notes of Bank of France ... ... ... ... ... | 5,000,000 |
| French gold ... ... ... ... ... ... ... ... | 4,360,000 |
| 5-franc pieces ... ... ... ... ... ... ... ... | 2,521,000 |
| Bills of foreign banks ... ... ... ... ... ... | 272,000 |
| German money ... ... ... ... ... ... ... ... | 1,831,000 |
| Total ... ... ... ... ... ... ... ... | £47,215,000 |

* Budget of 1872, Introduction, pp. xxviii-xxix.

A large part of the bills fell due in London, and the amount representing them had been transferred to the credit of the German Government by September, while other bills were to come due in November following. Accordingly, the German Government, having previously received large sums in cash which it had locked up, was an unusually large creditor of Lombard Street at the most difficult period of the year, and wanting gold for the purposes of a new German coinage, suddenly exercised its power. The effect was almost instantaneous. The gold in the Bank and the Reserve rapidly fell off, and the rate was as quickly raised, as the following table shows:—

| | Bullion. | Reserve. | Rate of Discount. |
|---|---|---|---|
| September 14 ... | £24,159,000 ... | £14,424,000 ... | 2 per cent. |
| ,, 21 ... | 23,497,000 ... | 13,711,000 ... | 3 ,, |
| ,, 28 ... | 21,090,000 ... | 11,077,000 ... | 4 ,, |
| October 5 ... ... | 20,215,000 ... | 8,920,000 ... | — ,, |
| ,, 12 ... ... | 19,173,000 ... | 8,064,900 ... | 5* ,, |

The high rate in this case was maintained for five weeks—a longer period than in the crisis of July and August, 1870, but the Bank had only followed more tardily than before the movement in the open market. The spasm was in reality equally superficial and almost equally soon over. In this case it did not, as in the former one, arise from the acts of individuals acting in view of the war, and it may be said that it would not have occurred if the German Government had been careful to avoid it, but it is one of the incidents of such large operations that the market is exposed to the caprice or mistake of the operating Governments. Precisely the same consequence might have followed upon the acts of

* The rate was really raised to 5 per cent. on October 7, five days before the usual weekly court, when the rate is changed.

a Government in suddenly calling up or discounting the instalments of a large loan.

While we speak of such disturbances as superficial, it would be a mistake to underrate their consequences and dangers. The chief sufferers in 1870 and 1871 were bankers and the Stock Exchange, principally the latter, but no such disturbance can take place even on the Stock Exchange without much private loss and hardship to people who are not "speculators." It is easy to conceive besides, that crises thus beginning might have very wide effects, one crash leading to another all through the world of finance and trade, and there is no warrant that a future disturbance may not have such effects, though the conditions necessary for its development did not exist in 1870 or 1871.

The present war, therefore, has acted as we may usually expect wars to do, in the production of spasmodic disturbance. As regards the other mode in which war produces dear money—and that not temporarily, but for a long period—viz., by the absorption of capital—it will follow, from what we have said, that in the late war there have been counteracting circumstances. Speaking of the money markets of Europe generally, money has been cheap and not dear for a long period indeed, notwithstanding all the borrowing which the war has occasioned. In France, no doubt, the rate has been rather high, the Bank of France rate having risen to 6 per cent. at the commencement of the war, and been maintained at that figure till the 27th of February last, a period of rather more than eighteen months. But France is the only part of Europe where money has been dear, and the rate there cannot be considered very high, when it is considered that the brunt of all the borrowing we have described had to be borne originally by one country alone. It is doubtful, moreover, whether so high a rate could have been main-

tained in France so long but for the artificial nature of its currency and banking system, which have impeded the free influx of money from the adjacent markets. Had France been more *en rapport* with the rest of Europe it would have been more quickly relieved from sources so numerous as hardly to have felt the drain. Even with this exception, then, we are entitled to say that money has been cheap in Europe, notwithstanding the war, and France is daily becoming less and less an exception.

We should say, then, that in fact there were several circumstances present to an unexampled degree during the late war, which counteracted the usual tendency of wars to produce a period of permanently dear money. The war broke out, in the first place, at a time of the most unprecedented prosperity—at the very flow of a most prosperous tide, and before the usual following of high prices and inflation had come to check the profits. The money markets of Europe were therefore well prepared to meet the unusual demand. Whether they could have met it without sensibly dearer money had everything else gone on as usual may be doubted, but the war, in fact, diffused a most unusual amount of apprehensiveness, and if it did not prevent the continuance and expansion of ordinary trade, at least it checked numberless new ventures of a speculative kind. There is no doubt, however, that in France ordinary trade was checked to a large extent, that being, as we have seen, one of the main causes of the French indirect losses. Great as the loss thus caused was, one result must have been that the French Government would have fewer competitors in the home loan market for means to carry on its struggle. A third cause of the abundance of capital was the extended issues of paper money in France. It is doubtful whether the diminution of the demand for

capital in France by the suspension of business would not have been counteracted by the new demand which would spring up in consequence of the old capital becoming of diminished effectiveness through the destruction of the machinery of credit; but if such a demand arose to any extent, it was in turn compensated by the large issues of paper. We shall not of course be understood to mean that capital was created by this process. What is true is that paper money economises capital, and its issue has all the effect for the moment of an increase of capital, whatever bad results may afterwards ensue. In these four ways, then—the occurrence of the war at a prosperous period in Europe, the diffused apprehensiveness it produced, the suspension of trade in France, and the extension of the Bank of France note issue—the natural tendency of war to cause dear money by absorbing capital was counteracted, and perhaps more than counteracted. We have perhaps had cheaper money longer than we would otherwise have had, if there had been no war.

The effect in England has perhaps been greater than in the belligerent countries in this way, that besides all our own savings diverted from new enterprise by the diffused apprehensiveness of the time, the disposition has grown among foreign bankers and governments to accumulate spare money in London. London is the most convenient place for them to put their reserves, the war illustrated in a most powerful manner its special security, and one of the very steps by which the French Government made its borrowing easier—the issue of inconvertible paper—also tended to increase the exchange business of London, and consequently the foreign surpluses accumulated there. Paris had formerly been a rival of London as an exchange centre, but with inconvertible paper it could no longer compete.

This has certainly been a cause of cheaper money. Had Paris and London continued to compete, more money would have been required by their aggregate business than is now required. The concentration of business in one centre only cannot but produce an economy of the instruments for carrying it on. The Paris money, moreover, is now used by a more efficient mechanism than it was used by in Paris, the agencies of the London money market being altogether superior. A certain amount of money has in this way been taken into a new channel where the same amount of money does more work than in the old channel. In every way, then, the foreign money goes farther than ever it did before.

Within the last three or four months there has been an additional counteracting circumstance. The German Government, instead of spending the money which is the usual destination of the proceeds of war loans, and instead of locking up the money as it did at one time, which had a still more disastrous effect than even extravagant expenditure, has taken to lending out a large part—how much is not known—of the funds which it has received. The aggregate loanable capital of the world is thus artificially increased by the finance arrangements in progress. Had the German Government employed all the surplus money to repay debt, the effect would have been less, because there is always a tendency for free circulating capital to become fixed. By the process of lending out, however, the money is kept more in hand, and competes with the ordinary supply of loanable capital in the world.

How powerful all these counteracting influences must have been is shown by the large amount of the French and German borrowings since July, 1870. The Governments alone have borrowed :—

| | | |
|---|---|---|
| Germany ... ... ... ... ... | £50,000,000 | |
| less repaid ... ... ... ... | 20,000,000 | |
| | | £30,000,000 |
| France:— | | |
| 1870 Imperial loan ... ... | £30,000,000 | |
| 1870 Morgan loan ... ... | 10,000,000 | |
| 1871 loan ... ... ... ... | 80,000,000 | |
| From Bank of France... ... | 60,000,000 | |
| | 180,000,000 | |
| City of Paris loan ... ... | 14,000,000 | |
| | | 194,000,000 |
| Total borrowed ... .. ... ... .. | | £224,000,000 |

Money has not been cheap, therefore, because war did not require much spending and borrowing. Large sums have, in fact, been taken out of the market, though plainly not larger than could easily have been met out of the current savings of France, Germany, and England, if only new enterprise was sensibly checked.

Something else has been taken out of the money market by the private borrowings of French merchants and manufacturers, but probably no large amount. Such demands would necessarily be limited by the deficient credit of the sufferers. The chief way, again, in which these losses would be replaced would be by the sale of securities, and it is noticeable that many French securities are now cheaper than just at the close of the war; but this may partly be due to the diminution in apparent value of the property represented by these securities. In any case, it is clear that the sale of securities has not checked to any material extent a general rise in the value of such property on all the exchanges of Europe. As that rise is due to the competition of accumulated savings for investment, it is

clear that the private borrowings of Frenchmen have not sensibly aggravated—any more than the public borrowings—the general demand for capital.

The war of 1870-71, therefore, so far as it has gone, though it has illustrated the usual tendency of wars to cause disturbance in the money market, has hardly illustrated their tendency to cause permanently dearer money by the destruction of capital. It has illustrated, on the contrary, the strength of the counteracting influences which sometimes exist. There is nothing in the facts, however, to prove that these counteracting influences are always likely to exist. War will always cause diffused apprehensiveness, and invasion will suspend trade, and probably extended issues of paper will produce for a moment a new economy of capital, but the coincidence of a period of great prosperity throughout the world is not always to be looked for. Nor is it likely that the money borrowed will be often lent out in consequence of its being borrowed by one Government and ultimately received by another. Such a very favourable conjuncture for cheap money during and after a war is not certain to occur again. As we have already remarked, too, the war was not prolonged enough to test what the destruction of capital would lead to, or the tendency of war to outrun the process of diverting capital from other employments, and so make it in excessive demand. All that can be said is, that in certain given circumstances a great European war, which involved spending and borrowing to the amount of over £200,000,000 in about a twelvemonth, did not produce dear money. In the circumstances described, and with the means which the society of nations now possesses, this scale of expenditure was not large enough for such an effect to be produced.

But the account is not yet over; France has not yet

borrowed all she wants; Germany has not received all she is to get; we do not yet see how Germany will dispose of what she does get. What effects may we yet expect from the financial operations to be completed?

On one point we think—viz., the possibility of spasmodic disturbance—there can be very little doubt. The German Government is still the holder of large sums at call or at short notice. In addition to the £47,000,000 indemnity money it got last year, besides smaller sums, it has just got £26,000,000 more, and so far as is known it has spent only a part of the money, not more than about twenty or twenty-five millions, in repaying debt, and not more than ten millions besides in miscellaneous purposes. We do not reckon what it keeps for the new gold coinage, for the coins will not be issued without a full equivalent being received, so that their issue will not lessen its power like a real expense. Germany has thus about £40,000,000 still at its disposition, which it may use for any object or any caprice it pleases. The absolute disposition of so enormous an amount, is almost a new power for any Government to possess, and increases, we fear, the liability of the money market to accidents. A Government which has the instalments of a loan to receive has great command over the market, but the German Government is in a superior position, having lent out the money on its own terms, retaining a large part of it at call or very short notice, and having in any case the power of rediscounting, by which it could convert the whole—or far more than enough to disturb the money market—into cash at a moment's notice.

The German Government has moreover £120,000,000 still to receive, and the French Government must not only borrow that, but considerable amounts besides. Experience justifies us in believing that there is a liability to accident in

these operations, however anxious the Governments concerned may be to avoid them. What the state of matters will be when the German Government has got the command of the whole, in addition to all its previous command of the market, we forbear to speculate. Even after paying off all the debts of Germany, except the railway loans, which are profitable investments—with this exception not more than £150,000,000—the German Government will have a large surplus, and it is not certain that it will pay off all the debts. It may prefer rather to lend out the funds, and have control of them, and so avoid the necessity of ever borrowing again. Even if it does pay off the debts, it will have annual accruing surpluses, by which it will still possess control over large amounts. There is thus no visible end to the possibility of catastrophic action on the part of the German Government on the money markets of Europe. Nothing short of a great war or revolution can change this disagreeable condition, under which monetary business must now be carried on.

As regards the other class of effects, it appears at first sight not improbable that the course of the market may be pretty much what it has hitherto been. The larger part of the actual borrowing is over, and surprising as this fact may seem, considering what the French losses have been, and that the borrowing of France has only been £194,000,000, it is not difficult of explanation. A great many of the losses, though real enough, do not affect the money market at all. The loss sustained, for instance, by the cession of Alsace and Lorraine requires no loan operation. It takes the shape of a new rent-charge upon the resources of France—for the retention of an old charge upon a diminished property has precisely the same kind of effect as the imposition of a new charge upon a property which is not diminished—but

though the loss is a real one and will diminish in future the aggregate net income of Frenchmen, it has not the effect of the destruction of so much capital, which had to be taken out of the money markets where it was used. The same remark applies to the loss caused by the creation of new war pensions. The losses endured at the time and charged upon the annual income are also settled, and cannot now affect the money market. The individual loss of capital, and the loss represented by the depreciation of annual earning power, will also have a smaller effect than would be supposed from their apparent amount. So far as they consist of savings prevented, the world is poorer by a capital which would otherwise have existed; but the undertakings which the capital would have supported—that is, the demands upon the capital—have diminished too. The loss by depreciated earning-power would only be partially mitigated by loans, and it implies, moreover, the diminished credit of the borrowers, so that the *effective* demand on the aggregate capital of the world is far from being in proportion to the loss. The whole market is smaller, but the supply is adjusted to the demand. In this way, then, it happens that the larger part of the borrowing is over. The amount borrowed, even deducting what Germany has repaid, and not including private borrowings, has been £224,000,000, and, so far as can be seen, France will be clear, if it only borrows about £120,000,000 to pay off the indemnity, and £40,000,000 more to liquidate arrears. It is probable, too, that most of the private borrowings have already taken place, the earliest opportunity having been seized to restore establishments and resume business as completely as diminished means would permit.

It has also to be remembered that the greater part of the future borrowings will not be for purposes of expenditure,

but only to transfer capital from one set of people to another. The money taken from the money market will be given to the German Government, and will not be spent, but used as capital. We have already shown that this will give the German Government very great power, but at present we have nothing to do with that point. It does not alter the fact that loans which are to be so used will not only not exhaust the resources of the money market, but by keeping in it funds which might otherwise have been sunk in some fixed form may even enlarge its resources. So far, then, there is some likelihood that the future finance operations of the war may help very little to cause dear money.

Another circumstance which points in the same direction is this. We shall continue in all probability to hold the private foreign money which comes to us in connection with our increased exchange business. France in any case could only get back its share in that business with difficulty, but the first condition of its even attempting to get it back—the restoration of a bullion basis for its currency—is not likely to be fulfilled for an indefinite time.

On the other hand, other circumstances which were very powerful during the last eighteen months have changed. There is now much less diffused apprehensiveness than there was. There is some apprehensiveness still, for foreign money partly comes to or remains in England for security, but the apprehensiveness is indefinitely less than when war was actually raging or only just concluded. The current savings of the world are also probably less than when the war of 1870 broke out or than they were during its continuance. We have now come to a period of high prices, and on all sides the complaint of manufacturers and traders is that their profits are very much less than they were. It may happen that even a smaller demand on account of the

war than what has hitherto been so easily met may tell very much on the market. It may come into competition with other increasing demands, and hasten a period of dear money. The point is that the finance of the war is only one element out of many in determining the future of the money market, and while some of the special circumstances which have hitherto counteracted the natural tendency of war to turn the balance in favour of dear money are still in operation, some very important circumstances which acted in the same direction are changed.

On the whole, we should be inclined to say that the most important circumstances are changed. The most important single influence on money is undoubtedly the annual savings of England, and the savings have been diminished while the employment for new capital has increased. This change is the more likely to operate because the other special circumstances which have counteracted the tendency of war to make money dear — the increased supply of foreign money in London and the practice of the German Government to make loans—are likely to have been most powerful at first. The current demand gets adjusted to the new supply and other capital is displaced, and then the more permanent causes which govern the market return in nearly full force. The approach of a period of dear money may possibly have been retarded on the whole by the aggregate effects of the war, but the retarding influences are probably played out, and the future can hardly be the same as the past.

We must again repeat, however, that the possible action of the German Government is apparently the most important question for the future. Its power of spasmodic disturbance is obvious, and we may further point out that the more its practice of making loans has been discounted, so that the market has got to depend on this extraordinary supply, the

greater its power will be. It may not only cause a spasmodic disturbance of unprecedented severity, but by withdrawing its supplies it may induce in a moment what may prove to be a prolonged change from cheap to dear money. It is not likely so to act, but its motives will be purely political, and no one can guess at all the circumstances and motives which from time to time may determine it to act.

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## *VII.—CONCLUSIONS.*

The principal conclusions arrived at in the preceding pages are the following :—

FIRST.—The direct expenditure in conducting the war amounted to TWO HUNDRED AND THIRTY-FOUR MILLIONS STERLING, of which the amount primarily spent by France was ONE HUNDRED AND SIXTY-NINE MILLIONS STERLING, and by Germany, SIXTY-FIVE MILLIONS STERLING. The items are :—

| | | |
|---|---|---|
| SPENT BY FRANCE. | | |
| Extra war credits of French Government, including special budget of £20,000,000 for liquidating war arrears ... ... ... | £120,000,000 | |
| Fines and requisitions levied in occupied districts; destruction of property, &c., less £4,000,000 voted by Government included in war credits ... ... ... ... | 44,000,000 | |
| Capital value of war pensions created ... | 5,000,000 | |
| | | £169,000,000 |
| SPENT BY GERMANY. | | |
| War credits, including maintenance of French prisoners, &c. ... ... ... ... | £60,000,000 | |
| Capital value of war pensions created ... | 50,000,000 | |
| | | 65,000,000 |
| TOTAL DIRECT EXPENDITURE ... ... ... ... ... | | £234,000,000 |

The above includes every cash outlay in actually conducting the war by the respective belligerent Governments, and the loss of property occasioned to the inhabitants of the invaded districts.

SECOND.—The indirect losses occasioned by the war to the communities of France and Germany respectively, amounted to THREE HUNDRED AND TWELVE MILLIONS STERLING—viz., TWO HUNDRED AND SIXTY-TWO MILLIONS suffered by France, and FIFTY MILLIONS suffered by Germany. The items are:—

SUFFERED BY FRANCE.

| | | |
|---|---|---|
| Estimated loss of income in 1870-71 by suspension of trade and abstraction of labourers from employment ... ... ... | £150,000,000 | |
| Estimated loss of permanent business or depreciation of annual earning power ... | 112,000,000 | |
| | | £262,000,000 |

SUFFERED BY GERMANY.

| | |
|---|---|
| Estimated loss of income in 1870-71 by suspension of trade and abstraction of labourers from employment ... ... ... ... ... ... | 50,000,000 |
| Total ... ... ... ... ... ... ... ... ... ... ... | £312,000,000 |

This statement of indirect losses is of course an estimate. The basis as regards the loss of income is, in France, that the loss may be taken to have been in the same proportion to the aggregate income of the people as the loss of the State Revenue in 1870-71 was to the whole of that revenue; and in Germany, that the proportion of the annual income of the labourers withdrawn for war to the whole income of the people would be the maximum amount of the loss, as trade was very little interrupted. As regards the depreciation of annual earning power in France, the data for

calculation are obtained by taking the per-centage of loss on the patent-licence tax the first year after the war, and reckoning that the annual loss of trade income would be in proportion. As the yield of taxes in Germany has not diminished, it is assumed that after-effects of the war of the kind which have been felt in France have not been felt in Germany.

THIRD.—The total cost and loss of the war thus reckoned is FIVE HUNDRED AND FORTY-SIX MILLIONS STERLING, the particulars being:—

| | France. | Germany. | Total. |
|---|---|---|---|
| Direct ... | £169,000,000 | £65,000,000 | £234,000,000 |
| Indirect ... | 262,000,000 | 50,000,000 | 312,000,000 |
| Total ... | £431,000,000 | £115,000,000 | £546,000,000 |

FOURTH.—No estimate is made in the above calculation for the loss of life or injury thereto in the war. It is believed that no proper estimate can be made of such losses, and so far as they are felt by the surviving community, they would be shown among the other items of indirect loss. A calculation is given, however, for what it is worth, showing that the loss and injury to life in France might be represented by a sum of £102,000,000, and in Germany by a sum of £30,000,000. The reason of the much larger figure for France compared with Germany is that Germany lost no civilian life, but in France, which suffered greatly by the siege of Paris and otherwise, this cause of loss accounts for sixty out of the above one hundred and two millions. The loss of soldiers' lives was also one-third greater on the French than on the German side, the total on that head alone being £42,000,000 against the German £30,000,000. These estimates, however, are only given *en passant*, and are not used in subsequent calculations respecting the war losses.

FIFTH.—The above losses have been principally defrayed out of capital—that is, have increased the indebtedness of the belligerent communities—but a considerable part has been dealt with at the time and paid out of revenue. The distribution of the items is as follows:—

FRANCE.

| | Charged on Capital. | Charged on Revenue. |
|---|---|---|
| Direct war expenditure of France ... | £120,000,000 | ..... |
| Requisitions, fines, &c. ... ... ... | 27,062,000 | £17,022,000 |
| War pensions of France ... ... ... | 5,000,000 | ..... |
| French loss of present income ... ... | 79,000,000 | 71,000,000 |
| Capital value of depreciation of French earning power ... ... ... ... ... | 112,000,000 | ..... |

GERMANY.

| | | |
|---|---|---|
| Direct war expenditure of Germany | 60,000,000 | ..... |
| German indirect losses ... ... ... | 25,000,000 | 25,000,000 |
| War pensions of Germany ... ... ... | 5,000,000 | ..... |
| Total for France and Germany... | £433,062,000 | £113,022,000 |

Thus the amount charged to capital is FOUR HUNDRED AND THIRTY-THREE MILLIONS, and to revenue ONE HUNDRED AND THIRTEEN MILLIONS; the amount primarily charged to capital by France being £343,000,000, and to revenue £88,000,000, the corresponding charges primarily made by Germany being £90,000,000 and £25,000,000.

SIXTH. — The above losses are not considered very serious, compared with the aggregate income of the communities concerned. Estimating that aggregate for each at about £600,000,000 annually, the direct outlay is only about one-fourth of that income, the total cost—omitting any estimate for loss of life—about one-half, and the loss of

permanent capital about one-third. Such losses should be easily recovered from, especially when it is recollected that £104,000,000, or one-fourth of the permanent loss of capital, does not represent any waste from accumulated stores, but merely an amount of annual savings prevented which would otherwise have been made. The waste from past accumulation is under three hundred and thirty millions sterling.

The cost, no doubt, had been unequally distributed even in the primary outlay—the primary loss of capital to France being £343,000,000 against £88,000,000 lost to Germany. Still, even as thus unequally distributed, the loss might have been quickly recovered from. But—

SEVENTH.—The changes made at the peace have immensely increased the burdens of France, and even made Germany a gainer. France has had to pay to Germany an indemnity of £200,000,000 in money without any deduction, and the cession of Alsace and Lorraine is equivalent to a transfer of £64,000,000. The loss of France has therefore been increased by £264,000,000, while the loss of Germany, as the indemnity is so much in excess of all the war had cost it, is turned into a gain.

Omitting any estimate for loss of life, GERMANY'S final account for the war will stand :—

| | |
|---|---|
| Indemnity and territory received ... ... ... | £264,000,000 |
| Less total direct and indirect expenditure ... | 115,000,000 |
| Net gain ... ... ... ... ... ... ... | £149,000,000 |

Looking only at the permanent loss of capital, however, the gain of Germany is greater, because part of the war cost was charged to revenue, and the indemnity comes in as capital. The capital account will stand :—

| | |
|---|---|
| Indemnity and territory received ... ... ... | £264,000,000 |
| Spent out of capital ... ... ... ... ... ... | 90,000,000 |
| Net capital gain of Germany by the war... | £174,000,000 |

On the other hand, the final account of FRANCE will stand :—

TOTAL COST OF WAR.

| | |
|---|---|
| Direct expenditure ... .. ... ... ... ... | £169,000,000 |
| Indirect „ ... ... ... ... ... ... | 262,000,000 |
| | £431,000,000 |
| Indemnity and cession of territory ... ... ... | 264,000,000 |
| Total cost to France ... ... ... ... | £695,000,000 |

CAPITAL COST OF WAR.

| | |
|---|---|
| Amount of first outlay charged to capital ... | £343,000,000 |
| Indemnity and cession of territory ... ... ... | 264,000,000 |
| Net capital loss to France by the war ... | £607,000,000 |

The result is that while Germany gains ONE HUNDRED AND FIFTY MILLIONS on the whole, and ONE HUNDRED AND SEVENTY-FOUR MILLIONS in permanent capital, France loses nearly SEVEN HUNDRED MILLIONS on the whole, and rather more than SIX HUNDRED MILLIONS in permanent capital.

EIGHTH.—The magnitude of the loss to France is illustrated in various ways. The total of £700,000,000 represents the sum of £19 per head among a population of 36,500,000, or about £76 per family. The capital loss of £600,000,000 is £16 10s. per head, or £66 per family, the English National Debt being £26 per head: the French in a few months of war have lost three-fifths as much capital per head as the individual share of the English in their famous Debt. The

total addition to the Debt of France is over £400,000,000, and the annual charge, allowing for the loss of Alsace and Lorraine revenues, and making a proper allowance for interest on the amount borrowed from the Bank of France, is virtually increased £23,000,000. This is about as much as the annual charge for interest on the English Debt.

NINTH.—The opinion is, however, expressed that France must recover quickly, though the new burden is equal to ten years' annual savings. The thrift of the people will be increased; an effort will be made individually to recover lost ground. A single bountiful harvest at such a time would go a long way to fill up the void created by these immense losses.

As regards Germany, a doubt is expressed whether the Germans will gain so much as France loses, the capital of the indemnity being transferred from individuals to the German Government, who cannot use it so profitably as individuals. It is doubted whether the practice of lending out large sums, though a preferable course to locking them up, will not in the end be injurious.

TENTH.—The financial operations incidental to these great losses and expenses seriously affect the money market. They have been a fruitful cause, in the first place, of spasmodic disturbance. The outbreak of war caused a monetary panic in July, 1870, by the anxiety of people who had money engagements to meet to provide against the chances of war, and there was another monetary crash in September, 1871, owing to the sudden withdrawal by the German Government of the money it had to receive. The war thus illustrates the tendency of wars in general to cause spasmodic disturbance in a market so delicately organised as that of London now is. And the liability to spasmodic disturbance continues, as the financial operations will not be

complete till Germany receives £120,000,000, and France borrows £40,000,000 more for miscellaneous purposes. The German Government has also complete control of the market, in consequence of the large amount of its loans.

A second tendency of war is to make money permanently dearer by destroying capital. But the effect of this cause has hitherto been counteracted, although the actual finance has been on a large scale, by the prosperity of the period when war broke out, the diffused apprehensiveness it generated; the partial suspension of trade in France, the accumulation of foreign money in London, which has risen to increased importance as an exchange centre, and the practice of the German Government latterly to lend out large sums from what it received. It is conceived, however, that as we are now entering on a less prosperous period, the war demands, although of smaller amount, may be more felt, and will help to accelerate a period of dearer money. Some of the counteracting circumstances have exhausted their first effects, and the market is left to the operation of the usual permanent influences. The fact that we are coming to a less prosperous period is in this view the most important, and ensures that the financial operations to be completed will have a maximum effect.—[March, 1872.]

## II.

## THE DEPRECIATION OF GOLD SINCE 1848.

HAVING made a somewhat extended inquiry into the facts of the supply and distribution of gold since 1848,* we propose to comment directly on these facts in connection with the alleged depreciation of gold. Such an inquiry is probably not susceptible of any perfectly satisfactory conclusion. The common notion is that, as the supply of gold has enormously increased in the last quarter of a century, therefore there must have been a general rise in prices, and the sovereign will no longer go as far as formerly. And this easy belief has found a plausible confirmation in the conspicuous rise of prices, especially in a few conspicuous articles, which has just occurred. The very notion of a fall in the value of gold was likely to strike the imagination and produce belief; and the notion that a sovereign will not go as far as formerly is also one to which men are prone, although the real difficulty in a period when the scale of living is rising may be to make a sovereign go *farther* than it formerly did. But those who are acquainted with such inquiries will see at once that the common notion, though easily enough accounted for, is unconnected with any valid evidence. It is not a mere increase of supply which tends to cause a fall of value, but an increase of supply in excess of the demand. And supply and demand themselves are not mere accidents. In the long run supply is ultimately dependent on real causes operating on producers and mer-

* This paper was written in 1872, as the sequel to a series of articles which I contributed to the *Economist*, on the supply and distribution of gold from 1848 to the date of writing.

chants, and the effective demand changes with every change of price. The inquiry, therefore, if exhaustively carried out, would be resolved into an inquiry into the whole causes affecting the supply and demand for gold. It is obvious again that a mere rise of prices even of a large number of articles in a particular year or years proves nothing. Rises of price are known to have proceeded in past times from many other causes besides additions to the supply of money. Before it can be asserted that gold has depreciated in consequence of the gold discoveries, the other causes of a rise of price must be excluded, and a general rise, covering a mass of retail as well as of wholesale articles, and extending over a long period, must be established. But evidence on such points is nearly impossible. Invention is continually at work, diminishing the cost of production, and even producing wholly new articles, so that a group of articles representing fairly the general stock of goods in the world at one time would not so represent the general stock at an earlier or later time. A general change of prices, therefore, between two points of time would not be easily proved, and the work is ten times more complicated when the comparison is made over long periods. In making the inquiry, therefore, we are far from hoping to arrive at any complete results. Instead of rushing at the popular conclusion or its opposite, we should be quite satisfied if the facts yield some results, however incomplete, on which dependence can be placed.

There are two ways in which the fact of depreciation, or non-depreciation, may be approximately tested. The *first* is to compare the prices of as large groups of articles as possible, impartially selected, to ascertain whether there is an average rise, comparing one long period with others. If there is such a rise, the presumption will be that there has been a depreciation of gold— that its value in relation to

other commodities has diminished, no matter what the cause may have been. But the comparison, for the reasons already stated, will be incomplete. In consequence of the increasing complexity of production, a group of articles which fairly represented the world's stock ten or twenty years ago, is now an unfair representation, and it will be necessary to inquire, if possible, on which side the inaccuracy of the mode of comparison would produce error. The *second* test, for which the facts we have collected will be most useful, will be to see whether the gold money of the nations using it has increased in greater proportions than their population and trade. Other things being the same, it follows from a general rise of prices that a greater quantity of metal must be employed in circulation to do the same work as before. If other commodities are unchanged, and population and business are the same, then if a sovereign is reduced to the value of half-a-sovereign, double the number of sovereigns will be required to make the same payments And any similar reduction of value must be accompanied by a similar increase of quantity. No doubt the qualification that other things must be the same is very important, but it appears to be not altogether impossible to ascertain whether the requirements of a community for a gold circulation in proportion to the population have or have not changed, so that if they have not we should be able to affirm that a general rise in prices must have involved an addition to the circulation disproportionate to the increase of population and of trade. The existence or non-existence of such an addition in a given case, when other elements of difficulty can be excluded, would be determinative of a general rise of prices. Both methods of inquiry are necessarily incomplete, and it will be interesting to see how far they corroborate or confirm each other.

*I.*

We have to inquire, *first*, then as to the fact of a general rise of prices, selecting as large a group of articles as possible. This part of the inquiry is almost done to our hand. Mr. Jevons, in the inquiry which he made in 1863, grouped together a large number of articles, whose prices he compared from year to year between 1851 and 1862 with the average of 1845-50, the last industrial cycle of expansion and depression which occurred before the gold discoveries; and a similar comparison of prices has been carried out in the Annual Commercial History of the *Economist*. In both cases the superficial result brought out is undoubtedly a general rise of price. Mr. Jevons, amongst other things, compared 39 articles, both separately and in the following groups:—"1, silver; 2-7, metals; 13, timber; 8-9, oils; 10-12, "tallow; 16-18, cotton; 19-21, wool, &c.; 23-28, corn; "29-31, hay, &c.; 32-35, meat; 36-39, sugar, &c.; 14-15, "dyes; 22, hemp omitted;" and the result of his inquiry was that the average ratio of prices each year, 1845-62 to the average prices of 1845-50, was as follows:—

| 1845-50. | | 1851-60. | | 1861-62. | |
|---|---|---|---|---|---|
| 1845 ... ... | 104.4 | 1851 ... ... | 92.4 | 1861 ... ... | 115.1 |
| 1846 ... ... | 105.4 | 1852 ... ... | 93.8 | 1862 ... .. | 113.4 |
| 1847 ... ... | 110 8 | 1853 ... ... | 111.3 | | |
| 1848 ... ... | 94.1 | 1854 ... ... | 120.7 | Average... | 114.3 |
| 1849 ... ... | 89.6 | 1855 . ... | 117.6 | | |
| 1850 ... ... | 92.1 | 1856 ... ... | 122.5 | | |
| | | 1857 ... ... | 128.8 | | |
| Average ... | 99.6 | 1858 ... ... | 114.2 | | |
| | | 1859 ... ... | 116.0 | | |
| | | 1860 ... ... | 117.9 | | |
| | | Average... | 113.52 | | |

From these, and other figures of a like sort, Mr. Jevons drew the conclusion that the average prices of the first industrial cycle after 1850 were upwards of 10 per cent. above the average before 1850, each portion of the curve in the latter period being higher than the corresponding portion of the curve in the earlier period. Not only this, but the level of price in 1861 and 1862, when prices were at a minimum point of the new cycle then beginning, was 14 per cent. above the average of 1844-50. Hence the conclusion that there had been a general rise in prices, or, in other words, a depreciation of gold.

The history since 1862 is given in the Commercial History of the *Economist*, but although the articles referred to are nearly the same,* the figures are not the average of each year, but the prices at the beginning of the year only.† They confirm, however, Mr. Jevons's figures previous to 1862, and show a great rise in price immediately afterwards, such as Mr. Jevons predicted. The rise is shown in the table we quote from, by an index number, forming the aggregate of the ratios of the articles to the average price of 1844-50; but besides the index number we subjoin the average ratio for all the articles in the form given by Mr. Jevons:—

* Viz.:—Coffee, sugar, tea, tobacco, wheat, butcher's meat, cotton, raw silk, flax and hemp, sheep's wool, indigo, oils, timber, tallow, leather, copper, iron, lead, tin, cotton-wool; Pernambuco only—cotton-yarn, cotton-cloth.

† For the purpose of an inquiry like this, a set of prices at a given date in each year is practically almost as good as the average of the year. The object is to compare the average of one period of years with that of another period, and it is most improbable that in each year prices at the given date would vary materially from the average of the year owing to some abnormal cause.

| | Total Index No. | Average Ratio to Prices of 1844-50. | Average Ratio of Periods. |
|---|---|---|---|
| 1845-50 ... ... ... | 2200 ... | ... 100 ... | ... 100 |
| 1851—Jan. 1 ... ... | 2293 ... | ... 104.2 | |
| 1853—July 1 ... ... | 2361 ... | ... 107.3 | ... 114.2* |
| 1857— „ ... ... | 2996 ... | ... 136.2 | |
| 1858—Jan. 1 ... ... | 2612 ... | ... 118.7 | |
| 1861— „ ... ... | 2727 ... | ... 124.0 | |
| 1862— „ ... ... | 2878 ... | ... 121.7 | |
| 1863— „ ... ... | 3492 ... | ... 158.7 | |
| 1864— „ ... ... | 3787 ... | ... 172.1 | |
| 1865— „ ... ... | 3575 ... | ... 162.5 | |
| 1866— „ ... ... | 3564 ... | ... 162.0 | ... 140.1 |
| 1867— „ ... ... | 3024 ... | ... 137.4 | |
| 1868— „ ... ... | 2682 ... | ... 121.9 | |
| 1869— „ ... ... | 2666 ... | ... 121.1 | |
| 1870— „ ... ... | 2689 ... | ... 122.2 | |
| 1871— „ ... ... | 2590 ... | ... 117.7 | |
| 1872— „ ... ... | 2835 ... | ... 128.9 | |

Making every allowance for the difference in the data, the fact of a much greater increase of prices between 1861-70 than between 1851-60, as shown by Mr. Jevons, is apparent. We may take it as certain that in the first decade after 1850, prices generally rose upwards of 10 per cent. above the average of the preceding period, and that in the second decade there was a further rise, which cannot, however, be deduced from exactly the same data. The second set of figures gives apparently a higher series of ratios all through than the figures compiled on the method of Mr. Jevons, the excess being about 10 per cent. Deducting this excess from the above average of 140 per cent. in the decade 1861-70, we arrive at 130 as the probable ratio of the wholesale prices of that period to the period before 1850. According to this, the depreciation of gold had amounted, in two decades, to something like 30 per cent.

* This figure is the average of the whole period deduced from Mr. Jevons's statistics.

So far, therefore, a depreciation of gold is made out, but there are two important objections to the conclusions from the above figures. One relates to the extent of the depreciation which is due to the gold discoveries, and is, therefore, assumed to be more or less permanent. Textile fabrics, and the raw material of them, enter very largely into the table which is given in the Commercial History of the *Economist*, the ratios for such articles comprising a third of the ratios included in the index number. But textile fabrics were the subject of a most exceptional rise of price in the years of the American War. Tobacco also rose in price from the same cause in the 1861-70 decade. The great rise between 1861 and 1870, therefore, was due largely to an exceptional cause, and the consequent depreciation of gold, on the average, was thus to some extent temporary.

The second objection to the figures is of a more general nature, and suggests an important qualification. The prices dealt with are wholesale prices, and mainly the prices of leading articles of raw material or of provisions. The prices of manufactured articles are almost wholly excluded, although the number and value of transactions in articles, after they leave the manufacturer's hands and are on their way to the consumer, probably far exceeds the number and value of similar transactions in the raw material. The distribution of a manufacture—say, woollen or silk fabrics—must, from the nature of the business, be a more complicated process than the growth and collection of the raw material for the purposes of manufacture. Omitting the prices of such articles, therefore, the tables omit the most important half of prices which require to be dealt with before a perfectly general rise can be ascertained. We admit, of course, that it would be quite impossible to compare the prices of an immense miscellany of manufactured articles, although a

rough comparison can be made of the prices of a few raw materials, but the significance of the necessary omission ought not to be overlooked. As Mr. Jevons remarked in his volume, the whole tendency of industry since the gold discoveries has been towards the diminution of the cost of manufacturing and distribution—a circumstance which itself has increased the demand for the raw material. In omitting, therefore, the prices of manufactured articles, the effect has probably been to make the general rise of prices, which would argue a depreciation of gold, appear greater than it really has been, or even to exhibit the appearance of a general rise when no such rise had in fact occurred. That this is no mere quibble is shown very forcibly by some figures in the tables themselves. The Commercial History of the *Economist* happens to contains columns for the prices of cotton-cloth as well as for raw cotton, and the smaller rise of price in the manufacture compared with the rise of the raw material is very curious. We give the entire ratios :—

| | Cotton. | Cotton-cloth. |
|---|---|---|
| 1845-50 ... ... ... ... | 100 | 100 |
| 1851—Jan. 1 ... ... ... | 86 | 118 |
| 1853—July 1 ... ... ... | 86 | 107 |
| 1857— „ ... ... ... | 95 | 113 |
| 1858—Jan. 1 ... ... ... | 73 | 99 |
| 1861— „ ... ... ... | 86 | 125 |
| 1862— „ ... ... ... | 140 | 127 |
| 1863— „ ... ... ... | 314 | 222 |
| 1864— „ .. ... ... | 460 | 275 |
| 1865— „ ... ... ... | 363 | 252 |
| 1866— „ ... ... ... | 383 | 222 |
| 1867— „ ... ... ... | 227 | 178 |
| 1868— „ ... ... .... | 100 | 114 |
| 1869— „ ... ... ... | 155 | 131 |
| 1870— „ ... ... ... | 173 | 135 |
| 1871— „ ... ... ... | 118 | 118 |
| „ —July 1 ... ... ... | 123 | 117 |
| 1872—Jan. 1 ... ... ... | 141 | 125 |

In some years, it will be observed, the rise in the raw material is indeed enormous, compared with the rise in the manufacture, and the difference goes to show that a table dealing mainly with raw materials would err on the side of showing a greater general rise than what had really occurred.

Another objection to the completeness of tables dealing with principal commodities only, and one indicating an error of the same sort, viz., an excess in the estimated rise of price, is supplied by Mr. Jevons's statements respecting "minor articles." To supplement his conclusions he made a table comprising, in addition to the 39 chief articles dealt with in his principal table, 79 minor articles, and worked out the rise of price in 1860-62 over the average of 1844-50. The result was that the 79 minor articles showed a much smaller per-centage of increase than the 39 chief articles. Mr. Jevons states :—

"Doing this separately for the 39 chief and the 79 minor articles, I find that the prices of the former have, on an average, risen between 1845-50 and 1860-2 in the ratio of 100 to 116.2, which is equivalent to a depreciation of gold in the ratio of 100 to 86.0, or by 14.0 per cent. The minor commodities, however, give a somewhat different result. In taking the mean, I have treated those which are bracketed together in the last column as having the importance only of a single commodity, so that only the mean of the ratios bracketed entered into the general average. We thus find there are 64 independent minor articles, of which the prices have, on the averages, risen between 1845-50 and 1860-2 in the ratio 100 to 106.76, which would indicate a depreciation of gold in the ratio of 100 to 93.66, or by 6.34 per cent., not half the change shown by the chief commodities."

The conclusion would therefore be, that the more miscellaneous the comparison can be made the smaller would be the general rise shown. Coupling this with the omission of manufactured articles, we obtain sufficient grounds for thinking that the general rise of price exhibited in the above

figures is the maximum and not the minimum average. Taking into account such changes in price as have been caused by the invention of the Bessemer process for making steel, we should be inclined to doubt whether it could be proved that the general purchasing power of the sovereign has much diminished since 1850. A table of the articles in which its power was likely most to be felt shows an average depreciation of about 30 per cent., but the real general depreciation, if any, must have been very much less.

It will have been noticed, perhaps, that we do not take into account at all the extraordinary rise of prices this year. That rise has been most sudden, and has undoubtedly raised almost every price except those of cotton and wool temporarily above the level of 1861-70. But we have yet to see, when this is absorbed in a group of years, what the average rise will prove to be. So far as can be judged, the present decade will *not* show any rise above the average level of 1861-70. It was a great point with Mr. Jevons, when he wrote in 1863, that the level of price then established, at the minimum point of an industrial cycle, was considerably above the level at the corresponding point in 1851. But it is evident from the above figures that prices in 1868-71, when they were again at a minimum point, had fallen back to the level of 1861-2. The probability is then that the curve will not rise higher, and we may assume that there has been no further depreciation of gold since 1862.*

* This was the conclusion in 1872. Since that date the index numbers in the Commercial History of the *Economist*, on the 1st of January in each year, have been:—

| | | | |
|---|---|---|---|
| 1872 ... January 1 ... | 2835 | 1875 ... January 1 ... | 2778 |
| 1873 ... „ ... | 2947 | 1876 ... „ ... | 2711 |
| 1874 ... „ ... | 2891 | 1877 ... „ ... | 2715 |

When these are compared with the table on page 87, the conclusion in the text is fully confirmed for the period subsequent to 1872.

*II.*

We have now to deal with the second test which we proposed to apply in considering the question of a depreciation of gold since 1848. The direct test of prices, as we pointed out, is in various ways defective. Even after making the best comparison possible between two industrial cycles, the question will remain whether the groups of articles selected for comparison in respect of prices are fairly representative of the whole stock of commodities. In point of fact, as we have since shown, there is reason to believe that the group of articles selected for comparison being mainly wholesale articles was likely to cause error on the side of showing an excessive rise of price, although the selection was as impartial as possible. At the same time it would be difficult, if not impossible, to compare anything but the prices of wholesale articles, retail commodities being too various and changing to permit of any such comparison. The object of our second test, then, is to supplement and correct the first. It may be assumed, we say, that other things being equal—that is, no change occurring in the conditions which make coin be used—the circulation of coin in a country will vary in exact proportion to the growth of population and industry. If the population has grown in a certain proportion without being, man for man, more industrious, the coinage remaining of the same value would increase in exactly that proportion. If the population had also become more industrious, so that, man for man, transactions and payments were increased, then, besides the increase of coinage in proportion to the population, there would be an increase in proportion to the accelerated activity of business, and hence too it would follow—this being the most important inference for our present purpose—that if the coinage depreciated in

value it would increase in nominal amount in greater proportion than the increase of population and industry combined. The excess of such increase would be a measure of the depreciation which had occurred, and would corroborate or correct the inferences drawn directly from the rise of prices, which, for the reasons above given, must necessarily be incomplete.

The most important — perhaps the only important — country for which a comparison need be made is England. As the most developed country commercially at the time of the gold discoveries, English prices are more likely than almost any other to show the effect of a general depreciation of the measure of value Is it possible, however, to make any real comparison of the growth of population, industry, and currency in England? The common notion is that it is not possible, the gradual perfection of the Clearing House arrangements having, it is supposed, economised currency in the interval since 1850. But a little consideration, we think, will show that there are really some data to go upon. In England there are in fact two standard currencies — the sovereigns, which are in the pockets of the people and are used as small change, and the Bank of England notes, which are used for large payments. The economy of the Clearing House arrangements, it is conceived, applies only to the latter currency. So far as the use of sovereigns is concerned, the necessities and habits of the people are unchanged. Deposit banking was quite as much developed in 1850, in proportion to the population, as it is now. What the Clearing House has accomplished is not anything which applies to the mass of the people in their use of sovereigns, but only something which applies to the arrangements among bankers themselves in which notes only are used. We may assume, then,

that every increase of population and business since 1850 must have involved a proportionate expansion of the sovereign circulation, and that it is only an expansion beyond that proportion which can be considered as indicating a depreciation of gold.

What we have to compare, then, is the increase of population and industry in England since 1850 with the increase of the sovereign circulation. The increase of population is easily ascertained. As we showed in an article on the coinage,* the population of the United Kingdom increased between 1848 and 1871 from 28,000,000 to 32,000,000, or 14.3 per cent. In such a comparison, however, we ought to look at the narrower England. Scotland and Ireland do not use a gold currency, and the increase of the circulation of sovereigns in the United Kingdom is, therefore, practically an increase of the circulation in England proper. And the increase of population in England and Wales since 1850 has been very much greater than the average increase in the United Kingdom.

| | |
|---|---|
| In 1871 the population was .... ... ... ... ... | 22,704,000 |
| In 1851 it was ... ... ... ... ... ... ... ... | 17,927,000 |
| Increase in 20 years ... ... ... ... ... | 4,777,000 |

—which is at the rate of 26.6 per cent., or about 1.3 per cent. per annum.

Such has been the increase of population, and the increase of industry has been in much greater proportion. The annual income assessed to the income-tax increased in England between 1848 and 1868 as follows:—

* See *Economist*, June 29, 1872.

| | |
|---|---|
| Amount in 1868 ... ... ... ... ... ... ... | £365,366,000 |
| Amount in 1848 ... ... ... ... ... ... ... | 229,868,000 |
| Increase in 20 years ... ... ... ... ... | £135,498,000 |

—which is at the rate of about 60 per cent., or 3 per cent. per annum. And this is probably the minimum increase of business. As we showed in the article above referred to, our staple industries have increased enormously. The production of coal, between 1856 and 1869 only, rose 60 per cent., and of iron 53 per cent., while the development of the export trade, as respects the quantities of all our manufactures, was truly prodigious. We are within the mark, then, in assuming as the basis of comparison with the increase in the coinage, that population since 1850 has increased at the rate of 1.3 per cent. per annum, and industry and wealth at the rate of about 3 per cent. per annum. The population is one-fourth more numerous than before 1850, and, man for man, their industry is nearly twice as productive as it was then. For these reasons their small change should have greatly increased, even without a depreciation of value; and if there has been depreciation, the increase should have been enormous.

But what has the increase been? Here we are beset by new difficulties. The amount of the circulation at any given time can only be approximately stated. It is conceived, however, that if a minimum amount at an early date can be compared with a maximum amount at a later date, the full expansion of the circulation will be more than accounted for, the proportion of increase being made to appear greater than it really has been. This will be a safe figure to compare with the increase of population and industry, so far at least

that any inference of a depreciation of gold will be quite as strongly, if not more strongly, supported than the facts would fairly warrant.

The gross addition to the circulation since 1850 has been about £50,000,000. As we showed in our article of August 31st, the addition to the coinage since 1857, deducting light coin withdrawn, and the exports of English coin, has been £27,576,000; between 1848 and 1857 the total addition, as reckoned in Tooke's "History of Prices," was £22,000,000 —the two sums making together almost exactly £50,000,000. But this is undoubtedly far in excess of the real addition. Mr. Jevons, in 1868, in his Paper on the Gold Coinage read before the Statistical Society, pointed out that there was an excess in the statement of the gold coinage upon a mere computation of the addition in the above manner, amounting to about £14,000,000. And he gave other reasons for believing that there was a much larger melting of coined money than was commonly supposed. Deducting a million more for sovereigns melted since 1868, we arrive at the sum of £15,000,000 as a moderate deduction from the above addition of £50,000,000 to the coinage since 1848, the real maximum addition to the minimum coinage before 1850, whatever we may take it to be, being thus only £35,000,000.

Now the coinage before 1850 could hardly be less than £60,000,000. There are no data for estimating the amount exactly, but the figure may be arrived at indirectly. Mr. Newmarch, for instance, estimated that the gold coinage in circulation in 1844 was 46,000,000, and allowing only 2,000,000 for subsequent additions, which has been the average for many years, this would bring the total in 1850 to the sum named. The actual new coinage in the interval was £27,000,000. Another mode of verification yields the same conclusion. Mr. Jevons, in 1868, ascer-

tained that there were 44,000 sovereigns coined before 1850 out of every 100,000 then in circulation. This figure being then £80,000,000, the conclusion is that in 1868 there were still £35,000,000 of the coinage before 1850 in circulation. But meanwhile there had been withdrawn in light coin at least £10,000,000, and there would also be some withdrawals for export, besides losses through melting, wear and tear, and the like which would easily sum up to £15,000,000, the difference to be accounted for. There is a high probability, therefore, that the coinage at 1850 could not be much under £60,000,000, if at all under that amount.

The increase in the coinage has therefore been :—

| | |
|---|---|
| Amount in 1871 (minimum) ... ... ... ... | £95,000,000 |
| Amount in 1850 (maximum) ... ... ... ... | 60,000,000 |
| Increase ... ... ... ... ... ... ... ... | £35,000,000 |

—which is at the rate of 58.3 per cent., or rather less than 3 per cent. per annum. Comparing this with the increase of population alone, which was 25 per cent. in 20 years, it would appear that there is an excess of 33 per cent. in the expansion of the circulation, which, according to this mode of verification, would be the limit of the depreciation of gold. As compared, however, with the increase of wealth and industry, there is no excess, the production of the staple raw materials of manufacture, coal and iron, having been at as great a rate between 1856 and 1869 alone, while the development of our export trade has been truly prodigious. We may safely say, then, that if there has been a great depreciation of gold since 1848—that is to say, anything over 10 or 15 per cent.—there has been no such expansion of the small change circulation as we should have expected

to follow that depreciation. As a corroboration of the direct evidence from prices formerly given, to the effect that the rise of prices has been little more than 10 per cent., if any, the facts now brought out are clearly worth something, although it would be foolish to dogmatise on such points. The data are imperfect, but so far as they go they clearly point to a very limited depreciation of gold as the past consequence of the gold discoveries.

The question will arise on these facts whether the economists were right or wrong who predicted manifold economic changes as the result of the depreciation of gold following on the gold discoveries. The conclusion must be, we think, that so far as the facts have yet gone, the speculation indulged in was exaggerated. A depreciation of 10 or 15 per cent. in the measure of value spread over a quarter of a century is hardly of a kind to produce any social disruption. At the worst it is a 10 per cent. income tax, and though a 10 per cent. income tax would be all but intolerable when levied directly, experience has fully shown that a much heavier per-centage can be levied on communities indirectly without the victims being individually conscious of the process. This would be the modifying consideration in regard to fixed incomes, and, of course, as regards the other transactions of life, the change would be quite imperceptible. The fluctuations of prices in commerce are so large, that this gradual change diffused over a lengthened period would be wholly imperceptible, and would in no way alter the basis of contracts, or the effect of the continual adjustments of wages. In justice to the economists, however, it should be remembered—and the point is also important as a corrective of the popular ideas—that the condition of the expected depreciation has not been fulfilled. M. Chevalier's estimate of the probable annual

production of gold was £35,000,000, and he thought it might be £42,000,000; Mr. MacCulloch's estimate was £39,000,000. As we have seen, however, the annual production has for many years been only about £20,000,000 per annum, which is very little in excess of M. Chevalier's estimate of the total annual consumption, viz., £17,850,000. The material fact of production having thus differed so materially from the hypothesis on which the theory of a great depreciation, amounting to 50 per cent., was built, it is not surprising at all that the economists were out in their estimate of the depreciation. But there could be no better illustration of the error of the popular habit of assuming, with little proof, a permanent rise of prices, and then assigning the gold discoveries as the cause, with the assured conviction that this is all done in accordance with economic authority. The calculations which have helped the growth of this popular conviction were not positive but hypothetical, and the subsequent facts having contradicted the hypothesis, the calculations fall to the ground.

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## *III.*

THE last question to be discussed in connection with the gold statistics we have lately collected, is the probable course of the future movement and its effect on prices. The past effect, as we have seen, is of a moderate description, not exceeding about 10 per cent. in the central wholesale markets of the world, where the effect of any change in the value of gold is most easily distinguished from other causes in the fluctuations of prices. It is urged, however, on one side that the causes of the depreciation of gold are only beginning

to operate, that future supplies coming upon an overstocked market will have an immense influence; and on the other side that there are rather signs of a falling off in production, and that, considering the growing demands of the world, an appreciation of the standard is more likely than any further decline in value. What light is thrown on these opposing views by the facts which we have been investigating?

At the outset, we may say we have no intention of making any distinct prophecy. What the actual demand of the future will be, and what will be the actual supply, and in what way any tendency to fluctuations in value will be corrected by a check to production on one side or a diminished demand on the other, are all questions on which there are perhaps no sufficient data in existence for a sure opinion. The experience of the past twenty years should moreover counsel the utmost modesty of prediction. No one in 1850 would have predicted that of the immense new supply of gold then coming into the world one-fifth would be absorbed by India and the East, and nearly two-fifths more by a single European country—viz., France, which would practically substitute a gold currency for a silver one. No one would have predicted, moreover, that the United States would substitute paper for gold. Yet all these facts were more or less essential in 1850 in calculating the ratio of the demand to the then future supply of gold. Any prediction of the future is equally liable to be upset by unexpected incidents. All we shall do, therefore, is to point out the relation of the current supply to the current demand, and on what side the probable great changes that will affect the value of gold are likely to be.

According to the figures which we published in our general article on "The Production and Movement of

Gold since 1848,"* the current supply may be taken as £20,000,000. There may be some production besides in outlying countries, but this figure of £20,000,000 represents the amount which comes into the general bullion movement of the world. And this annual amount has also been a tolerably steady one for more than ten years. In the five years between 1852 and 1856 the annual production was as high as £29,000,000, and in the following five years the average was still as high as £25,000,000, but since 1862 the average has been £20,000,000, with £22,000,000 on the one side and £19,000,000 on the other as the extremes of variation. The condition of production may, of course, change very quickly, but so steady a supply for a long period seems to argue that the industry is being carried on under stable conditions, and that about £20,000,000 may be relied on while the demand continues what it is.

The question of the current demand is a more intricate one. The whole history of the market in past times shows the powerful influence of extraordinary demands. But for the demand for India, and the demand for France, there would not have been sufficient outlets for all the new supplies of gold, aggravated as they were by the substitution of paper for gold in the United States. At the present moment, besides, the course of the market is likely to be governed as much as ever by extraordinary changes in the demand. Germany and Scandinavia are substituting a gold for a silver coinage on the one side, and France is substituting paper for gold, though its policy may change at any moment. The Indian demand, which was formerly so great, has also of late years fallen off, though it would be rash to assume that under no circumstances will it again

* See *Economist*, Vol. XXX., p. 954.

revive. But omitting the question of these great movements for a little, there appears to be an ascertainable current demand of no small magnitude. (1.) England absorbs on the average about £5,000,000 a-year—about £2,000,000 for coinage, and the remainder for the arts and other purposes. (2.) There is a demand of about £1,000,000 per annum for South America. Our exports to Brazil and other South American States in the ten years ending 1871 were almost exactly £10,000,000,* and this demand being for English sovereigns is apparently a steady demand. (3.) The annual consumption of Spain, Portugal, &c., appears to be about £800,000.† (4.) The annual absorption by India, though not so great as it was in 1862-66, appears still to exceed £4,000,000. In the five years ending 1871 the amount absorbed was £21,458,000, or over £4,000,000 annually, the extremes of variation being £2,283,000 on the one side, and £5,592,000 on the other.‡ Even before 1850, it must be remembered, India was an absorbent of gold to the extent of about a million-and-a-half annually, and it is not surprising that its great growth during the last twenty years should enable it to increase its demands. (5.) There is a steady Australian demand of uncertain amount, but probably nearly equal to the annual minimum coinage of the Sydney mint, or about £1,200,000 a-year. All these demands are comparatively stable, and have practically existed for ten years without any traceable permanent change in the level of prices, no further rise or fall, as we have seen, having occurred since 1862. They sum up as follows :—

* See Table XI., *Economist*, p. 957, Vol. XXX. † *Ibid.*

‡ *Economist*, Vol. XXX., p. 1430, Table II.

| | |
|---|---|
| (1.) English consumption ... ... ... ... ... | £5,000,000 |
| (2.) South American ditto ... ... ... ... ... | 1,000,000 |
| (3.) Portugal, Spain, &c., ditto ... ... ... ... | 800,000 |
| (4.) Indian ditto ... ... ... ... ... ... ... | 4,000,000 |
| (5.) Australian ditto ... ... ... ... ... ... | 1,200,000 |
| Total current annual consumption ... ... | £12,000,000 |

The figure is perhaps not quite complete, as there are no doubt many other miscellaneous demands not easily traceable; but increase such demands as we may, the conclusion is plain that a current annual demand of £12,000,000, or thereabouts, would not take up a production of £20,000,000. If there were nothing else to be considered, the probability as regards gold movements of the next few years would be the accumulation of gold upon the commercial markets of the world, and a somewhat rapid inflation of prices, accompanied by a real and permanent change in the standard of value.

As we have seen, however, the extraordinary demands are most important in this question, and we have now to ask how far the annual excess of £8,000,000 in the current supply over the current demand will meet the extraordinary demands which seem in prospect. On this point we shall be inclined to say that there will not be enough for these extraordinary demands without a great increase of production during the next few years. The *first* known demand is very urgent and of great magnitude, viz., the demand for Germany. The Germans have decided to have a gold currency, and in round numbers this means that within the next few years Germany must obtain between £60,000,000 and £80,000,000 of gold. Germany is very much in the economical condition of France, and is now a good deal more populous, but France in twenty years took

up about £200,000,000 of gold. To assume that Germany will use up half the amount in half the time is no extravagant supposition, especially as the German Government to begin with has extraordinary means at command, and being richer now than France was in 1850, will require more at once than France then required. Last year, in fact, Germany, it is now known, coined about £21,000,000, and she proposes to coin £18,000,000 in the current year; and the scale of coinage is not above her needs, and will probably remain high for the next two or three years. In this single extraordinary demand, therefore, there is far more than enough to absorb the excess of current production over the ordinary current demand which we have above described. In addition, the known demands for the Scandinavian countries will absorb a good deal, though it is hardly worth reckoning them when so overwhelming a demand as that for Germany is impending.

The next great point as regards the future is the possibility of a resumption of specie payments by the two great "paper" countries—France and the United States—whose standard previous to inconvertible paper was practically gold. This resumption of specie payments will not cause so serious a demand as that for Germany, because gold in both instances has undoubtedly been hoarded, and will come out of its hiding-places as soon as it is once more legal tender. But the United States at least has grown immensely since 1868, when inconvertible paper was introduced, and the presumption is, that the old hoards would not be sufficient for the new work they would have to do. To resume specie payments the United States must begin by a considerable coinage, and some additional coinage will probably also be required for a similar purpose in France. Here, then, we have the elements of another extraordinary demand besides

that for Germany during the next few years; and we do not think the contingency should be disregarded. The inappreciable premium on gold in France is itself an indication that the evil of inconvertible paper is being kept within bounds, and always keeps the probability of a resumption of specie payments within sight. And the financial and political authorities of France will both be equally desirous that specie payments should be resumed at the earliest possible moment. In the United States, again, there is a growing opinion in favour of specie payments, and though the gold premium there is a serious matter, as it is not in France, the United States has ever shown a boldness and thoroughness in expedients which is foreign to the usages of the old world, and the fact of a high premium on gold is, therefore, a less barrier to the resumption of specie payments in the United States than it would be anywhere else. If the public mind in America is once made up to have specie payments, a somewhat revolutionary and decided action is quite as likely as not.

Our conclusion, therefore, is that the better probability of the next few years is an excessive demand for gold compared with the current supply. We have a regular annual demand for £12,000,000 or upwards, leaving an excess of £8,000,000 for any extraordinary demands; but one known demand of this sort seems likely to take far more than this excess for several years to come, and there are heavy contingent demands which it is needful to keep in mind. What the result will be it would be needless to speculate. Compensation will, perhaps, be found in a greater economy of existing stocks and a reduction of current demands, as well as in a pressure to produce more, which may have some result. But if the extraordinary demands continue, and if little can be made of the last expedients suggested,

we should rather expect within the next decade that gold will rise in value, instead of continuing the fall which was arrested in 1862—in other words, that the general range of prices is rather more likely to fall during the next ten years than it is to rise. We must again repeat, however, that the point is one on which we have no pretension to dogmatise.—[December, 1872.]

## III.

## THE LIQUIDATIONS OF 1873—76.

WHAT are the characteristic marks of the great depression of trade during the last three or four years? It is now ascertained that such depressions are periodical. They recur at tolerably regular intervals, following in the wake of equally regular periods of great prosperity in trade, when everybody makes profits or seems to make them. The alternation has no doubt its roots in human nature, which lends itself to an ebb and flow, an action and reaction, in affairs. The depressions, like the periods of prosperity coming before them, have also many features in common. Just as the prosperity is shown by the prevalence of good credit, an active money market, and a high range of prices for both securities and commodities, so the depression is marked by a low range of prices, heavy failures, bad credit, and consequently a sluggish money market. But each depression has likewise its own special features and incidents. The crisis in which it begins, or which it produces, indicates some special development of trade at the time, or some special disease in it—the favourite business of a country changing from time to time, and a constant tendency existing to go to an extreme with the momentary fashion. We propose, then, to inquire what are these special features in the recent depression; this proceeding being likely, it is obvious, to be more instructive than a mere examination and

record of those features which most depressions have in common. There is an additional reason for this course. An impression prevails that the present stagnation of trade is unprecedented in intensity and duration, and that it is likely to be permanent. A similar impression has often been found to prevail at such times, and it will be interesting to inquire whether it is now, for once, well founded, or whether in reality the depression is not much less than those to which trade has often been subject, and is not as likely as any other to terminate in a new period of prosperity.

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## I.

ENDEAVOURING to answer the question we have put, what we are first struck with, in a general survey of the last three or four years, is the universality of the depression. Almost every civilised country has been affected. The beginning was in 1873, with the great Vienna panic and crash in May of that year—a crash which was accompanied by immense agitation throughout Germany and in England, and the occurrence of incidents on almost every European Bourse which only stopped short of panic. Next came a great panic and crash in the autumn of 1873 in the United States, perhaps the greatest event of the kind to which that country, though it has had many great panics, has ever been subject. This was accompanied by a renewal of agitation in England, as well as generally on the Continent, as the rates of discount in November 1873 significantly prove. At that date the minimum bank rate of discount was in London no less than nine per cent., the maximum being two and three per cent. higher; the minimum in Paris and Brussels was seven per

cent.; in Berlin and Frankfort, five per cent.; Vienna, five per cent.; and Amsterdam six and a-half per cent. The following year was comparatively quiet, but it was marked by great monetary disturbances in South America, and by a great fall in prices both at home, on the Continent, and in the United States. In 1875 came renewed disturbances in South America, a renewal of agitation in the United States and Germany, and then the Im Thurn, Aberdare, Collie, Sanderson, and other failures, constituting the commercial crisis of that year in England. This was in turn succeeded by a great collapse in foreign loans, which had been heralded and partly rehearsed in 1873, on the occasion of the bankruptcy of Spain, and of which the conspicuous incident now was the non-payment of the Turkish debt interest. To all these events succeeded renewed depression and stagnation in trade at home, as well as on the Continent, the crisis in Russia in 1876 being very marked, and the whole continuing till it seemed to have a fresh cause in the apprehension and actual outbreak of the present war. Thus the depression has been widespread and general, Italy, Spain, and France perhaps escaping with little hurt, but Austria, Germany, Russia, the United States, and the South American countries having all been in deep distress.

This universality, on a comparison with former periods of crisis, may be in fact apparent only, arising from the greatly increased facilities of observation at the present day. There never was a time, probably, since commerce was sufficiently advanced in more countries than one to admit of crises, in which the commercial misfortunes of one country did not react on countries with which it did business. At such periods as 1825, 1837-39, 1857-58, 1861-62, and 1866-68, it is undoubtedly the case that the crisis in England has been accompanied by more or less severe crises

elsewhere—France, America, England, Holland, and the German towns on the Elbe, having shared each other's fortunes more or less during the whole period. Now the crisis is felt to be more extended, because we are immediately informed of the events in most distant places, because we see at once the association of failures at centres remote from each other, because we also see at once the effect in one place of the call upon it to render assistance at another disturbed centre of business. But it is also true that commercial relations are themselves far more extended than was the case before railways and telegraphs; that there are wide regions—in the United States, for instance—which could not have been the subject of crisis twenty or thirty years ago, because they were unpeopled; that such countries as Austria and Russia have lately shared more largely than before in industrial development; and that Germany has also advanced farther in the path which makes it possible for it to be the subject of a commercial crisis. There is consequently a real reason for the greater extension of the commercial depression of the last three years as compared with anything before witnessed, while it is equally true that steam and telegraphs, by facilitating communication, have destroyed the natural barriers between the different communities of the commercial world. The London money market appears to be the great equaliser of markets, because it receives the shock of every important business event throughout the world, and transmits the shock of what it feels to every other centre. But whatever the nature of the connection, it is certain that there is a connection between commercial crises in different parts of the world, and that the wider range of business increases the possible area of disaster when once disaster has set in.

*II.*

THE next important characteristic of the depression, and, perhaps, the most important characteristic of all, appears to be that the conspicuous industry which has failed is that of the "exploitation" of new countries with little surplus capital, and whose business is mainly that of producing raw materials and food for export, by old countries which have large surplus capital, and are largely engaged in manufacturing; in other words, the investment in new countries by the capitalists of old countries. Much bad business is brought to light in every depression; but it is the peculiarity of the commercial cycle, as we have noticed, that there is a change from time to time in the favourite business, so that every period has its special trade development, and special trade disease. The favourite business for many years before 1873 had become that of foreign investment, and now the depression occurs where there was the greatest expansion. Direct evidence in such matters is difficult: it would hardly be possible to measure precisely the extent of the various descriptions of disaster which combine to make a crisis; but there are many facts and circumstances which can leave little doubt in the mind that the direct evidence, if it could be obtained, would wholly confirm the conclusion stated.

The order of events in the crisis affords of itself a very striking confirmation of the assumption. The difficulties commenced in the countries more or less farmed by the capital of England and other old countries; whose industries are nourished by public loans from England, and by the investment of private English capitalists within their territories, principally in the form of English iron and manufactures. The crisis in Austria, which was the first in the whole series, was a crisis in a country answering this

description to some extent. To the United States, where the next great crash occurred, the description is still more applicable. The South American countries, whose prolonged suffering was the special feature of 1874, are almost a domain of England; and Russia, too, is largely "developed" by English capital. Some of these countries, especially Austria and Russia, have not been exclusively dependent on English capital. They have also benefited by the accumulation of capital in Holland, Belgium, and France, which had been drawn largely to Germany before 1873, through the French indemnity, and had overflowed thence into Austria and Russia; but the indemnity payments, though they helped to precipitate and aggravate the crisis in Austria, did not alter the power of that crisis to react on England. No doubt, in 1873, as already noticed, the collapse of the foreign loan financing had been foreshadowed; but the anticipatory events of that year were in themselves comparatively unimportant, so that down to 1875 what chiefly happened was a succession of monetary and commercial crises in countries dependent on England, but from which England by comparison escaped. In 1875 these crises were succeeded by a crisis in England itself of very great intensity, naturally leading to a renewal of crisis and distress elsewhere, though not of actual panic, and the whole culminating in the financial disorders of the foreign loan collapses, which will probably form, in after years, the most conspicuous feature of the whole series of liquidations. There appears to have been a natural order, therefore, in the successive crises to which the countries dependent on England have been subjected, leading to a crisis in England itself, and finally to a financial as well as a commercial collapse.

We have next to adduce in evidence the fact of the great

expansion of the business of investment in foreign countries previous to the depression. The great multiplication of foreign loans in the period is now familiar. Not to speak of Turkish and other loans, which were so largely mere borrowings to pay interest, there was a loan of £32,000,000 for Egypt, after there had been large loans in 1868 and 1870; Chili in the same time (1867—73) borrowed £5,250,000; Peru, £24,000,000; Brazil, £10,000,000; Russia, £77,000,000; and Hungary, £22,000,000 — exclusive of minor borrowings by guaranteed companies and otherwise. These were the nominal amounts of the loans, and the real money or money's worth ever transmitted to those countries in respect of them must have been much less; but, making all deductions, they indicate an immense direct credit opened up in this country in favour of the States named. The minor borrowings we have referred to were equally important, if not more important, and, especially in the case of the United States, the aggregate of small loans for railways and other purposes was immense. All this direct borrowing likewise implied a great investment of capital privately in foreign countries. Merchants and traders were induced to set up establishments abroad to facilitate the business which the loans brought into existence, and accommodate the wants of emigrants to the new fields of industry. The result was a luxuriant industrial growth in the new countries by means of this vast direct and indirect credit which old countries were giving. Thus in the United States, immediately before 1873, the length of the whole railway system had been doubled in seven years; in Russia almost the entire system of 12,000 miles has been created since 1868; in Austria there had been an increase from 2200 miles in 1865, to over 6000 miles in 1873; and in South America, Brazil, the River Plate

Republics, Chili, and Peru, had all been endowed with railways in a very few years—the loans for these countries above enumerated, and especially the above loan of £24,000,000 for Peru, being avowedly all for railways. And never was there a more rapid development of the foreign trade of the United Kingdom. The total import and export trade, which was £500,986,000 in 1867, had risen in 1873, or in six years only, to £682,292,000, or 36 per cent.; and the trade per head from £16 1s. 3d. to £21 4s. 9d., or 32 per cent. The exports of British produce alone, to take the two extreme years, had risen from £179,678,000 in 1868 to £256,257,000 in 1872, or 42 per cent. in four years, the increase per head being in the same period from £5 17s. 4d. to £8 1s., or 37 per cent All this had followed a rapid rise in previous years; for the panic of 1866 was chiefly the collapse of a home company mania, and had not brought with it discredit of foreign loans, or a collapse of the business of lending to foreign countries. And in one or two trades the increase of business was even greater than the general increase. Thus the quantity of our iron and steel exports rose from 2,042,000 tons in 1868 to 3,383,000 tons in 1872, or 66 per cent. in four years; while there was simultaneously a rise of price which made the increase in values immense, not only in these, but in other articles where there was no such increase of quantity. It is sometimes said that the burst of trade which culminated in 1872-3 was largly due to the extra demand for our manufactures created by the Franco-German War. This war checked manufacturing on the Continent for nearly a twelvemonth, besides causing a war demand for certain of our manufactures. But the comparison we have made is of a year when the war was long over, with a year quite before the war, while the most con-

spicuous instance of increase in our exports was in iron and steel, which was clearly in connection with increased railway construction abroad. The expansion of our foreign trade was thus manifestly in connection with the general expansion of our foreign investment business, and not the result of the accidental or temporary causes which have been assigned.

That there has been a most disproportionate stoppage of the foreign investment business, which would go far to account for the present depression, is also very obvious. I do not refer so much to the notorious stoppage of the issues of foreign loans, small and great: after every great crisis new issues of almost every kind come to a standstill, as frequent experience has shown. It was so after 1866, and has been so after similar years of crisis, although I doubt if foreign issues, as distinguished from home enterprises, have ever been so completely stopped as they are now. Quite apart from this, we have unmistakable evidence of the decline in foreign investment business in the financial and industrial embarrassments in new countries, of which, as I write, the great railway strikes in the United States furnish a new illustration. There has also been a diminution of singular magnitude in our export trade. That trade has frequently fallen off in times of general depression, but never to such an extent as has lately been witnessed. The diminution altogether in the exports of home produce and manufactures has been from £256,257,000 in 1872 to £200,639,000 in 1876, the change being partly due as usual, and perhaps rather more than usual, to a fall in price, but only partially to that cause. There has not since the free trade period been such a decline in our foreign trade, just as there had been no previous example of so great an expansion. The decline has also been mainly in the exports to

such countries as the United States, which had been our great borrowers—the falling off to the United States alone being from £40,737,000 in 1872 to £16,834,000 in 1876, this latter figure being the lowest since 1864. It has also been mainly in such articles as iron and steel; the exports of which diminished from 3,383,000 tons and £35,996,000 in value in 1872, to 2,224,000 tons and £20,737,000 in value in 1876; while the exports to the United States alone fell from 975,000 tons in 1872 to only 160,000 tons in 1876. The recent diminution in our export trade is therefore not only unusual, but it is a diminution of the exports to new countries, and a diminution of those articles which we send abroad for the purpose of new works in such countries. So great a change in one great branch of our business would go far to account for the general depression now prevailing, which is thus once more traced to the failure of our foreign investments.

The embarrassments in the new countries were also connected with the excessive development of their capabilities which had been attempted. A very considerable amount of the railway and other speculation during the last few years, has been proved to have been wholly in anticipation of the wants of the world, the evidence of this being an over-production of raw materials and food, the characteristic products of the new countries. Of this over-production the most significant sign was the low price of wheat in 1875, notwithstanding the bad harvest of that year in several countries. There had previously been complaint of low prices in the United States —in 1873, for instance—and of inability to "keep back" crops. Similar complaints had also been received from Russia in 1874. Even in 1876 the price of wheat was slow in rising in the autumn, notwithstanding a generally bad

harvest, and the extreme war rise the following spring was only maintained a few days. In other words, the assumption as regards wheat that new countries might be settled indefinitely has proved to be erroneous. The result of what appears to be excessive cultivation is an unremunerative price, which leaves merely agricultural communities in distress, and disturbs their whole system of industry. It has been the same with other raw materials, such as cotton, although perhaps not to the same extent. But in general the business of producing raw materials and food had been overdone, and the crises in Austria and the United States in 1873, followed as they have since been by the similar crises in South America and Russia, were evidence that the power to support the financing of the previous two or three years, which was based on the business of investment in new countries, had ceased.

The uglier features of the collapse of foreign loans also furnish evidence of the characteristic mark of the crisis with which we have been dealing. In addition to the issue of loans, which involved the investment of capital in a fixed form to an extravagant extent, so that immediate loss and ruin could not but ensue, there had taken place in a few years before 1872 frequent issues of loans for foreign countries so called, which were only disguises to plunder the public. We refer to the loans for Honduras, Paraguay, San Domingo, and Costa Rica, which were investigated by the Foreign Loans Committee, and to a numerous class of which these were perhaps the most flagrant specimens. These were simply issues by knots of speculators, usually on the plea that they were for some public work—to which a small portion of the money raised was perhaps, in fact, devoted—but really with the design, as carried out by those concerned, to pay themselves large sums in commissions and otherwise,

so long as the public could be got to believe in such things, by the payment of interest out of the funds they had themselves advanced. All this was very natural. The peculiarity of the time being the development of foreign countries by loans, it was only natural that the illegitimate financing of the time should also consist of so-called loans. As there had been bogus companies in the days of the company mania, so now there were bogus loans.

These are all circumstances tending to show how much the bad business brought to light in the recent depression was connected with the business of investment in new countries, and its accessories, which had previously just received so great an expansion. As we have already remarked, there was much bad business besides. In the set of failures connected with that of Messrs. Collie, what seemed to be shown especially was a peculiar disorder in the trade with India, the result, it is probable, of the undue investment of capital in that trade at a date as far back as the cotton mania in 1863 and 1864. But the bad business of foreign investment and financing has certainly been far the most prominent.

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## *III.*

A THIRD distinguishing mark of the crisis appears to be the singular lightness of its effects on English industry and wages. As has been hinted already, such is not the common impression regarding it. On the contrary, the depression of trade is spoken of in common speech as something entirely unprecedented both in intensity and duration. But a careful examination must prove that, as far as matters have yet gone, the common impression is wrong, and the facts are entirely the other way.

The common impression appears to be due to a misinterpretation of two undoubted facts: first, the evident magnitude of the financial collapse in foreign loans, which has been productive of great social distress among the classes who have most ample opportunities of proclaiming their grievances; and next, the magnitude of the decline of the foreign trade of the country, which is identified with a decline in its whole trade. But it is easy to see that there is a misinterpretation. The magnitude of the financial collapse is, of course, very serious. The novelty of the deception of the public by bogus loans has increased the evil as compared with the evil of a company mania, while the opportunities of fraud were really more favourable to the conspirators than in the manufacture of bubble companies. A State loan sounds more respectable than a company issue. On the whole, the securities of States for a long period had also answered better than the shares of companies, and although also in former years many State loans had proved the source of loss to English investors—several South American States, Greece, Spain, and one or two States of the American Union, having all proved defaulters—yet there had been no flagrant instances of loans which were merely cloaks to let promoters and financiers have commissions. The agents and institutions connected with States also controlled larger resources than had been controlled by the financiers of companies. The inability of investors, therefore, to form a good judgment on the investments submitted to them, their disposition to rely on market price, and other extraneous or irrelevant circumstances, was never experimented on so widely, or with more unfortunate results. Hence the magnitude of the bad business and the ensuing collapse. In the loans for Turkey, Egypt, and Peru alone, the depreciation of securities within a year after the

Turkish collapse amounted to about £150,000,000, while there is a total destruction or suspension of income from tainted securities exceeding £20,000,000 a-year. But, great as this collapse is, it has probably affected very little the accumulation or real wealth of the country. Many people feel themselves poorer than they were before, but the community as a whole is not really poorer by the pricking of all these bladders. A certain number of people are simply prevented from continuing any longer the process of living on their capital, for that was what they were doing when they were spending the so-called interest paid them, which was really only a return of what they had themselves advanced. But the whole of the so-called interest was not so spent, a great deal of it, as is the case with the interest of every description of investment, being reinvested, and in this way the collapse really changes nothing, except to let many people know that their accumulations were imaginary. The direct economic effect is consequently *nil*, although the social effects and individual disasters are of the most serious kind. The depression of trade attending a financial collapse ought not, therefore, to be measured by the seeming magnitude of the financial collapse itself, which last may be very great without the ordinary industry of a country being seriously checked.

As regards the second fact which is misinterpreted—viz., the decline of the foreign trade—the common impression only requires to be challenged to prove its unsoundness. We have probably a larger proportion of foreign trade than any other great nation. Our workmen and capitalists have gradually come to exchange a larger proportion of the products of their industry for foreign products than any other people. But even yet we are very far from exchanging more than a small part of what we produce. Our whole

agriculture is for home consumption; our coal and iron mining, our cotton and wool spinning and weaving, our manufactures generally, are also mainly for home consumers. A decline in our foreign trade, therefore, is only a decline in a branch of our whole trade, and should by no means be identified with a general depression in business. The recent decline in the foreign trade, moreover, is almost entirely a decline in "optional" business. It is a decline in our exports of such articles as we have been in the habit of exporting as a means of investing our capital abroad. When we stop such exports, certain branches of home industry, which have been fitted to this peculiar trade, suffer; but the capital which would otherwise have been sent abroad, and the means of producing that capital, are not destroyed. In the course of time, if the taste for foreign investment does not revive, the capital and labour employed in making articles for export will be turned to the production of articles for consumption and investment at home. Instead of merely looking at the foreign trade, then, we should look at our aggregate trade in such times of depression, and not suffer our opinions to be distorted by one or two conspicuous facts.

Coming to the subject in this way, we do not see how it can be doubted that the recent depression, although it is very protracted, is as yet singularly light in degree. Our imports of the chief articles of popular consumption, to begin with, have not diminished, but increased. Indeed, one of the favourite complaints about the depression of trade is the old cry of the excess of imports over exports, which is certainly greater than usual, because our investments in new countries have ceased for a time, but which is the permanent characteristic of English trade. It is quite certain, however, that no country sends us any goods on credit; it is

England which always gives credit in the trade of the world. Whatever increase of imports there may be, then, is a sign of real ability to pay for them, and *pro tanto* of the undiminished prosperity of the country. To the same effect, we have the fact of an *increase* of railway traffic year after year during the depression. The increase in 1874 and 1876, and again in 1877, has been small; but in 1875, the very year of the great commercial and financial collapse, it was considerable. Evidence in the same sense is also supplied by the non-increase of pauperism all through the depression, and by the steady augmentation of the national revenue, until the present year, and by the increase of the savings-bank deposits. The non-increase of pauperism is no doubt partly due to our improved administration, but no improvement of administration could have prevented such an increase of paupers and decline of revenue as followed the panics of 1847, 1857, and 1866, not to speak of the awful convulsions and distress which marked the depression of trade in still earlier periods. To any one who has even glanced at the economic history of England during the present century, the common talk now about the "unusual" depression of our trade appears simply ludicrous. The people who indulge in it have simply never thought of what depression of trade is. There has probably never been a great commercial crisis in England which caused so little suffering to the mass of the nation.

When we think of the matter a little, it seems reasonable enough also that the depression should be a mild one. Severe as the crisis has been, we were lucky enough to escape an actual panic, with the shock to credit and other lamentable incidents which a panic invariably produces. It is probable also that we were really befriended by the peculiar events in the money market in connection with the

German coinage. The withdrawals of gold for Germany had the effect of anticipating the stringency in the money market which a period of great expansion ends in. The expansion was thus hindered from reaching the extreme it would otherwise have reached, and the reaction is less severe. Some good judges are of opinion that we have to thank yet another cause—the high normal wages of our workmen, and their independence of abundant harvests and cheap wheat, as compared with what was formerly the case, so that all our staple industries are steadier than they were. But I should doubt the effect of this cause without greater experience than we have yet had. Workmen will suffer, it is to be feared, in a way in which they have not lately suffered, if another time of expansion such as there was in 1872 should reach its full term, and industry be subjected to the strain of the inevitable reaction. But without this cause, the actual facts of the absence of a panic during all this depression, and of the successive stringencies in the money market which checked the exuberant growth of 1872 and 1873, appear quite sufficient to account for the comparative mildness of the effects of the depression we are witnessing.

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## *IV.*

THE marks of the present depression which we have enumerated are thus its universality, its origin in the breaking down of the bad business of foreign investment, and its mildness in the United Kingdom as compared with former periods of depression. Is there anything in these peculiarities, or in any other circumstances of the depression, to lead us to anticipate that it will be unusually protracted

or that its effects will be permanent? Is the depression, in other words, the beginning of anything unusual or unprecedented?

To put the questions thus explicitly is perhaps to answer them. Although there is much vague talk about existing depression—which is really based on an assumption that it is something utterly unheard of and must be lasting—it is not so easy to assert explicitly what is so confidently assumed. To suppose the permanence of almost any depression would, in fact, be to suppose a change in human nature itself. Universal dulness and poverty are, in fact, contradictions in terms, unless it is supposed that all people will voluntarily be idle when they have the strongest motives to work. Whatever awkwardness there may be in the distribution of labour and capital at certain times, the power to produce and the wish to consume ensure that with the means of production unimpaired—and there is no allegation that the means of production in the present case are impaired—production will go on and increase with the increase of population and with every species of chemical and mechanical improvement. It is thus morally certain that if at any time the industrial machine, as a whole, is partially disused and times are dull, a period of full employment and prosperity will return.

And short of the depression being permanent, its effects will not, we think, be worse than usual, if indeed the worst is not already past. The disorder has been very general throughout the world, because, industrially, the world is getting to be more and more one country; but there is manifestly nothing in the extent of a depression to alter its character or the power of the communities affected to recover. So far as England is concerned, moreover, all that has happened is that a particular part of our trade

—our exports of domestic produce and manufactures—is momentarily weak, just as in former times the home trade dependent on railway contractors or bubble companies was weak. Our new investments in a particular direction have failed; but that is all. There is clearly no reason in this for any prolonged stoppage or diminished use of the industrial machine for all the miscellaneous purposes of life, although it will only be by degrees that new outlets for our surplus capital can be found. All the reasons assigned to account for the lightness of the depression until now—the absence of panic, the fact that the collapse is so much a merely financial one, and the circumstance that the expansion previous to the depression was arrested in its natural development—are also reasons why it should not be more protracted than usual. Some new mischief may of course arise, but there is nothing on the face of the facts, according to all former experience, to lead us to expect an aggravation of the present evils.

Nor do the special causes sometimes assigned for expecting an unusual degree and continuance of depression appear to be entitled to much weight. The British workman, it is said, drives business away by his misconduct and his demands for excessive wages. Foreign nations are increasing their manufactures of the very articles of which England, till lately, had a monopoly. Every import of a foreign manufacture into England, at a time like this, gives occasion for a new exclamation that English industry is threatened. The changes are constantly rung upon such facts as the increased capacity of the United States for the production and manufacture of iron; the importation of certain descriptions of American cotton manufactures into England; the appearance of Belgian and German manufactures in our markets at a cheaper price than the articles can be made by ourselves. But those who use this language appear to fail

altogether in measuring the extent of the mischief they point out. A great deal of the apparent competition of foreign manufactures is due to the search for a market which occurs in every time of depression, and which furnishes no sure indication whatever of any real change in the currents of trade. All we know for certain is that on the other side the complaints abroad of the competition of English manufactures are loudest at such a time, and that facts as to foreign competition, similar to those now alleged, have been brought forward in every time of depression for the last half century, without any serious permanent result on English trade being traceable. That trade, on the contrary, as, for example, after the year 1869, when a great noise was made about similar facts, always makes a more rapid advance than ever after each depression. No one can dispute, indeed, that English workmen are often foolish for their own interest, or that some English trades have diminished, and others may yet diminish or may become stationary, while foreign trades of the same kind increase. Still the question here is of the general prosperity, and it is easy to recognise the strength of the influences which are likely, and, we believe, are certain to limit the evils feared, as, in fact, they always have limited them. Our workmen do, in fact, succeed in getting higher wages, as a rule, than foreign workmen; they do not migrate, and pauperism does not, on an average of years, increase—all signs that manufacturing, as a whole, whatever may happen to particular trades, increases in England. It is because there is so much more profitable manufacturing here than elsewhere that our workmen can enforce the higher wages. As we certainly cannot expect that foreign countries should manufacture nothing at all, but must rather desire their manufacturing to increase, there is really

nothing in all that is said of foreign competition to concern us in an inquiry as to the permanence of the present depression.

The fallacy in the use of these alleged facts as to foreign competition consists, indeed, very largely in the forgetfulness of other facts which are equally material: that our foreign trade itself is not everything to us, but is, after all, only a fraction of our whole business; that long before competition can diminish that trade materially it must produce a fall of wages, while wages abroad will rise if foreign trade increases; and that although foreign countries increase their manufactures, we are not necessarily ruined—probably we are greatly gainers. To take what seems as formidable a case of possible competition with us as any that is threatened—viz., the increase of the American iron and coal industries under natural conditions. It seems probable enough that in course of time these industries will be very largely developed in the United States. The people have natural aptitude and skill, and other advantages, and they may produce iron manufactures cheaper than they can buy them abroad. In time they may export them to other countries. But how is England necessarily the poorer for that, and how much? We may come to export a smaller quantity of our iron manufactures to the United States than in the years before 1872; but at most we shall only lose the *profit* on so much trade, not the whole value of what we sold to the United States, which was, in comparison with our whole trade, by no means a large sum. Nor shall we even lose the whole profit. We can only lose the difference of profit between what was derived from that trade and the return on the less profitable trade, into which a portion of our capital and labour are diverted. Possibly, also, the growth of the world may be such that the expansion

of the American industry will not be exclusive of, but will be coincident with a similar expansion of our own—there may be room for both of us. In that case there would be no reduction of the profits on our own trade at all, although America had become an exporter of iron manufactures. *Ex hypothesi*, the increase of the American iron trade would also mean that America becomes richer, and consequently a better customer to the world generally for other things—thus causing an increase of the general prosperity in which, with our extended and various trade, we could not but participate. Worse things may thus happen to us than a natural extension of the American iron trade; and if it is extended by protection only, it can of course do us still less harm. There is something essentially unsound, therefore, in the continual references to the increase of manufacturing abroad. Our concern should rather be to have that manufacturing increase. To anticipate that the world outside England is to be merely agricultural or mining, is to anticipate the maintenance throughout the world of the least productive forms of applying human industry, and of low purchasing power among other countries. What mankind require for the greater efficiency of their labour is that the proportion of people employed in agriculture and mining should diminish, and more and more attention should be given to other forms of industry. How England should grow poorer as this transformation is being effected, it is difficult to imagine. It appears to be as clear as any proposition, that the general increase of production, leading to still greater varieties and subdivisions of manufacturing than those which now obtain, must benefit most of all the countries like England, which have got the start of others, and possess all the best manufacturing appliances.

We should fully expect then, when the liquidations

which have been in progress are over, to see once more a great revival of prosperity. Still more, according to all former experience, the prosperity to come must be even greater than anything yet seen. Ever since 1844 there has been an ascending scale in the rate of our industrial advance. The years after 1848-49 were more prosperous than any before, but the prosperity of 1863-65 exceeded that of 1850-53 just as the prosperity of 1870-73 exceeded that of 1863-65. In like manner the next period of prosperity will probably exhibit a fuller development than 1870-73, and for a similar reason—viz., that the productive capacity of mankind in civilised nations, in proportion to their numbers, is annually increasing—being capable of almost indefinite increase. More railways and more machinery, the improved knowledge of chemical and other arts, imply that one year with another, in proportion to their population, civilised communities can produce more real wealth than they did before. Depression comes at times, because mistakes have been made, and the wrong things are produced; but when the mistakes are corrected, or some new favourable influence operates, such as a good harvest, the tide flows again, industrial communities work up to their full power, and they are all richer than before. Possibly the workmen at a given place may take out their share of the increased production in the privilege of working fewer hours; but the prosperity is there, however it may be enjoyed. The great extension of railways throughout the world in anticipation of real wants, which was the mistake of the period of inflation, should, now that the mistake has been paid for, contribute to a more rapid advance of general prosperity than would take place if the world had fewer railways.

There has naturally been much talk during these

liquidations of the commercial and financial dishonesty brought to light. At every such period there is an endless discussion of such matters, as if the worst evils of every crisis arose out of dishonest acts, and the practical questions were how such acts are to be prevented in future. But while recognising the importance of such discussions in their own place, I doubt if they are as profitable and instructive as those who engage in them suppose. Improvement in morality is necessarily a slow process, and in so complex a world as that of modern business the efficacy of any external aids to prevent dishonest or quasi-dishonest practices, or an abuse of credit in some form or other, may be doubted. It would no doubt be important to discuss the immoralities disclosed during a period of crisis, provided a great deterioration of character had become manifest; but I should not look for a change of this sort in so short a time as that which elapses between different crises, and at any rate there was no such change manifest in the last crisis. There was nothing very novel in character after all in the Collie frauds, or in the financial swindling which has occurred. The Collie accommodation bills were no better and no worse than the accommodation bills in the leather trade discovered in 1857, or the similar discoveries in other crises. At times, when trade becomes unprosperous, it is inevitable that bills will deteriorate in quality through the desperate efforts of people to carry on after they have become insolvent. The point where insolvency is passed must be difficult to discern for many houses which depend on borrowed money, and which engage incessantly in large speculations. Probably before the fact of irretrievable insolvency is fairly recognised by a house like Collie's, and desperate expedients to avert bankruptcy increase in number and frequency, enormous mischief has been done, and

enormous losses to the people who have trusted them are unavoidable. The chief practical lesson to be learnt from such failures is really a detail of practice—the revelation to our great joint-stock banks of a defect in their system which should be easily curable, and the cure of which would mitigate the effects of catastrophes like that of Messrs. Collie. The financing of foreign loans was also no better and no worse than the financing of companies, or the construction of contractors' railways in past times. There are reasons in the nature of times of prosperity for the creation of pinchbeck securities, and the details and particular form of security chosen are not of permanent interest. If the class of promoters is checked in one way, they will invent new methods and new fields of deception, still keeping within the wind of any laws that may be contrived. Since 1866 there have been few companies with large amounts of uncalled capital, the special evil of the pre-1866 period; but the activity formerly witnessed in this field has been equally injurious, as we all see now, in the field of foreign loans. The exposures of the Foreign Loans Committee in 1875 have so effectually stopped these, that it has already become unnecessary to consider the particular recommendations they made. Probably promoters will now go into a totally different field, which I am disposed to think may be the creation of trusts or trust companies to "amalgamate" securities, and so distribute the risks. The principle seems fascinating: more than one of the numerous trusts now in existence have been fairly successful: we may accordingly expect an extension of the principle by which investors will be once more encouraged in the impossible experiment of making a high interest safely. But trust companies are really as dangerous as limited companies with much uncalled capital, or foreign loans, though in a different way. They

amalgamate securities and distribute risks, it is true, but they add the great risk of a new set of intermediaries between the investor and his investment. In addition to his former risks, the latter, when he belongs to a trust, runs the risk of employing an adventurer or a thief to select and keep the securities. The danger is manifest. But if promoters do not go into trusts, or trusts do not "take," we may be certain they will try something else which will probably be found to answer, so great and so enduring is the infatuation of the public; and the mischief will be done before effectual warning can be given.—[1877.]

## IV.

## WHY THE DEPRESSION OF TRADE IS SO MUCH GREATER IN RAW MATERIAL PRODUCING COUNTRIES THAN IN THE MANUFACTURING COUNTRIES.

SOMETIME ago, in noticing the annual report of the American Secretary to the Treasury, we drew attention to the fact of the greater severity of the recent, and still existing, trade depression in America, as compared with what we have experienced at the same time in England. The Secretary's statistics showed that the revenue of the country had fallen off so greatly as to prove a serious *diminution* of consumption among the masses, whereas the consumption of articles in general use has, in this country, steadily increased, notwithstanding all the complaints of dull trade. There has likewise been, as is well known, a serious falling off in the railway traffic of the United States; emigration thereto last year (1874) was little more than half what it was in 1873;* the steamboat companies engaged in the American trade have been in great difficulties, many of them running at a loss, the savings of all being diminished, and a few going into liquidation. In France and Germany, as we pointed out, the depression had also been more severe than with ourselves, and we threw out the suggestion that to all appearance the business of food-production throughout the world had been overdone. The colonisation of the Far

* It has since still farther declined, and very greatly.

West of America, and other agricultural regions, and the investment of capital in new works to develop them, had been prosecuted in advance of the actual requirements of the world, and hence their peculiar sufferings. This view, we must still believe, was correct as far as it went, but the prominence lately given to the commercial and financial distress existing, not only in the United States, but throughout almost the entire American continent, suggests that there may be room for even a more general explanation. The South American States, at least, are not grain-growing countries like the United States, but are mainly occupied in producing other descriptions of raw material—wool, hides, sugar, copper, guano, coffee, and various other raw produce. How is it then that the depression there has been as severe as in the United States, if not more severe? and what common explanation of the phenomenon, coupled with the fact that manufacturing countries have suffered less, can be given?

Let us see, first, how the facts stand, and what the scale of the phenomenon is. The group of South American States is really most important to us from the extent of our trade connections with them, and the investments that have been made in their securities. The population and revenue of the five more important States which may be noticed are as follows:—

| | Population. | Revenue |
|---|---|---|
| Brazil ... ... ... | 10,000,000 | £10,000,000 |
| Argentine Republic... | 2,000,000 | 4,000,000 |
| Peru ... ... ... .. | 2,500,000 | 5,000,000 |
| Chili ... ... ... ... | 2,000,000 | 3,000,000 |
| Uruguay ... ... ... | 300,000 | 1,250,000 |
| Total ... ... | 17,800,000 | £23,250,000 |

United, these countries would form a group as important materially as Prussia was before its conquest of North Germany, and, adding the smaller or less known countries, we may take the population at twenty-five millions, and the revenue at nearly thirty millions. Actually our imports and exports to those countries are as follows:—

| | Imports. | Exports. | Total. |
|---|---|---|---|
| Brazil ... ... ... | £7,020,000 | ... £7,689,000 | ....£14,709,000 |
| Argentine Republic... | 1,252,000 | ... 3,133,000 | ... 4,385,000 |
| Peru... ... ... ... | 4,490,000 | ... 1,595,000 | ... 6,085,000 |
| Chili ... .. ... ... | 4,693,000 | ... 2,737,000 | ... 7,430,000 |
| Uruguay ... ... ... | 1,445,000 | ... 1,214,000 | ... 2,659,000 |
| Total ... ... | £18,900,000 | £16,368,000 | £35,268,000 |

Roughly stated, our foreign trade with the chief South American countries is nearly forty millions a-year, about two-fifths of our annual trade with the United States, and about a fifteenth part of our entire foreign trade. The extension to this wide region of the same severe distress which has been noticed in the United States cannot but interest us extremely.

The facts as to the severity of distress can also be stated simply. Brazil, which is the more important State, has perhaps been the least sufferer, but the financial crisis in Rio during the last two or three months has been so severe that, according to the authority of the correspondent of our contemporary, the *Economiste Français*, the banks there had almost ceased discounting. Writing recently, also, Mr. Consul Lennon-Hunt, in his report to the Foreign Office, gives a gloomy picture of the state of the country, quoting long extracts from memorials on behalf of the agricultural interests to the Government, which assert that the cultivation of cotton, sugar, coffee, &c., is in danger of "annihilation," and that there is a fearful and terrible crisis.

As regards the Argentine Republic, the accounts by the last mail need only be referred to. "The money market of "Buenos Ayres," says the *Standard* of that city, "was never "worse than at present. Several failures have occurred "amongst the native dealers: in nearly all cases the English "and German importing houses figure as creditors, and some "for large amounts. The private banks have stopped dis- "counting; and, in fact, since the beginning of the present "crisis, say April, 1873, money has not been tighter than "at present." With the exception of *Estancia* lands, every species of property had also fallen 30 to 40 per cent.; exchange was "difficult to pass," there being few takers, and money extraordinarily dear; the business in exports was greatly checked; and, "in fact, everything is difficult "in the River Plate to-day." The Argentine Republic, as our readers know, has also received a large immigration during the last few years, nearly 40,000 a-year, its importance as an immigrant-receiving country having become only second to that of the United States; but, as in the United States, this movement of population is checked. This year the arrivals from Europe hardly reach 500 per month, against from 7000 to 8000 per month in former years. Previous issues of the same paper state that early in the year considerable numbers of emigrants who had arrived were going off to Brazil, or back to Europe.

As regards Peru, we have commented so lately on the financial distress existing there that we need only call attention to one or two points. As in the United States, the Peruvian Customs Revenue has largely fallen off.

| | |
|---|---|
| The receipts in 1873 were ... ... ... ... ... | £1,698,000 |
| " 1874 " ... ... ... ... ... | 1,423,000 |
| Decrease ... ... ... ... ... ... ... ... | £275,000 |

—which is a decrease of nearly 20 per cent. There had been, no doubt, a very sudden rise in Peruvian Customs just before, but the falling off is none the less serious as indicating a great fluctuation in the condition of the country.

As regards Chili exceptionally, there is less to remark, Chili having been free from some of the errors which aggravated the depression among its neighbours.

Finally, as respects Uruguay, the facts of numerous failures, including that of one of the principal banks, of the Government issue of inconvertible paper, and of the repudiation of the home debt, show a state of crisis so severe that nothing more need be said. Perhaps no commercial community has ever passed through a worse crisis than that of Uruguay during the last few months.

There can be no doubt then of the facts, or of the still greater severity of the depression in South America, as compared with the United States; and it is difficult not to suppose that the causes of a condition of things so general are very like. They are all in much the same stage of economic development—new countries whose industry is mainly agricultural or mineral, and it would be very singular if it were purely the result of accident that the effects now witnessed are similar. No doubt, at first sight, a special explanation might be given in each case. Thus Brazil, like the United States, suffers from the error of an inconvertible and fluctuating paper currency, and from duties on its *exports;* Peru has the same difficulty of inconvertible paper, with the addition of a mistaken Government speculation in railroad-making, by which the special wealth of the country in guano has been wasted; in Montevideo the Government has long been in great financial difficulties; and the Argentine Republic also suffered of late from an

insurrection which was easily suppressed, but which, as far as it had any material effect at all, would tend to injure the material prosperity of the country. But these special causes do not explain everything, and, in part, obviously arise out of the working of the more general causes which we think the most important.

Among these we should be inclined to reckon, *first*, the greater liability of raw material to be produced occasionally in excess of the demand, than is the case with manufactures. Manufacturing—the preparation of the raw material for the consumer—is steadily carried on all the year round, and may thus be kept on a level with the consumption. If trade is bad, the manufacture can be almost instantly checked, or the weaker manufacturers gradually retire. If trade becomes good, the workmen and machinery have full employment, perhaps a little overtime is worked, while new capital and labourers are gradually attracted into trade. But the production of raw material is less elastic. Crops must be prepared long beforehand; and the harvests, from the nature of the case, must thus be produced without any adjustment to the temporary condition of manufacturing industry. Hence, in part, the great fluctuations in raw produce; if demand springs up it cannot be immediately met, and if demand falls off, the produce is on offer all the same, and the producer must take what price he can get. And if we look at the history of these countries for a few years we see that their great prosperity does, in fact, coincide with years of high prices for raw material, which have stimulated production long after the demand which caused the high prices had itself been checked by them. South America was prosperous to a degree in 1872 and 1873, but the prices of almost all the staple articles have since fallen, and there is universal distress.

There is also another difficulty in connection with the adjustment of the production of raw material to the demand —at least as regards agricultural produce. The farmer's operations are a "bet with the weather," and the return is thus liable to additional fluctuations. The supply may fall off from this cause at the very time the demand is increasing, or *vice versâ;* and thus the natural difficulty of adjusting supply to demand, arising from the necessity of working by seasons is aggravated.

The *second* cause to notice is, the usually defective condition of economic knowledge in such countries. They make mistakes which ought to ruin them, and prosperity has more deceptive and misleading power than elsewhere besides being intrinsically less stable. Thus Brazil, as already mentioned, raises export duties on its principal products. Peru, again, has indulged a fancy for railroad-making, at frightful cost, with the immediate consequence of causing a factitious prosperity while the construction of the railways was in progress, to be changed for the present adversity when the railways made at such great cost are found unproductive, when the surplus of revenue from guano available for the ordinary purposes of Government has disappeared, and given place to a large deficit, and when the special expenditure, which made the late factitious prosperity, must be *per force* suspended. There has also been a rather hasty extension of public works in almost all the other countries, with the exception, so far as we can judge, of both Chili and the Argentine Republic. A great over-importation of articles of luxury beginning in the prosperous period is also universally complained of, just as the complaint has been made in the United States. Almost all the countries besides have high and Protectionist tariffs; they all inherit some of the evils of inconvertible paper, while Brazil, Peru, and Uruguay

are affected with the actual disease at the present moment, in varying degrees of intensity. It is no matter for surprise that the conduct of the most fluctuating sort of industry should be rendered occasionally disastrous by such blunders.

A *third* cause appears to be, the scarcity of capital in new countries, and their dependence upon the older countries for the current supply necessary to that continuous development, which is a condition of their prosperity. Hence in a time of pressure, when capitalists call in instead of extending their advances, such countries are badly off. Their industry is organised with a view to continuous colonisation; roads are built, shops and stores set up, and various other appliances introduced in sparse localities, to accommodate a population and a continued investment of capital which do not come. Hence when railways are stopped midway, and the advances from the home capitalists are directly or indirectly withdrawn, the weaker parts of the industrial body are paralysed. The withdrawal often takes the form of the refusal, or inability, of the home investor to take up the bonds of private companies in such countries, or even the State loans, at the former rate on which all concerned had counted; but probably also, there is a great check given at the same time by the increased prudence of private capitalists. All things combine to give such countries a "bad time" when their straits would otherwise be greatest. When the raw material they produce is lowest in price, and they are reaping the penalty of all their economical mistakes, the supply of new capital, on which they usually depend so much, is withdrawn.

In these three ways, then, we think the countries producing raw material are apt to suffer more than manufacturing countries in a time of depression. If improvement is to come at all, new countries must seek to compensate their natural liability to great commercial fluctuations, by a

more prudent rate of expansion, and by a more careful study of the lessons of political economy, the neglect of which may be less injurious to them than to an older country, but is still very injurious. The South American countries, like the United States, will of course recover, but they will do so the more quickly by recognising the nature of their disadvantages, and remembering the peculiar instability of their periods of greatest prosperity.—[1875.]

# V.

## FOREIGN COMPETITION.

A PHENOMENON is being repeated at the present time which is often witnessed in times of depression of trade. The cry is raised that trade is being destroyed by foreign competition. Every bale of goods or ton of ironwork which comes from a foreign country into England "at a lower price than the "same articles could be produced at home" is made the text of a discourse on the decline of English manufacturing. The multiplication abroad of manufactories of those articles which we produce for export is made the text of similar discourses. "See," it is said, "how some nations which "were formerly our customers are manufacturing for them- "selves, and how other nations are going to the shops of "rivals like the United States, France, and Germany, who "are gaining upon us every day in the race." There is an essential fallacy in the whole argument, for the alleged facts, even if they were true, would not prove that foreign competition causes our manufacturing industry to decline, although it may be coincident with that decline. It is notorious, indeed, that everywhere abroad, and not least in Germany and the United States, manufacturing industry is depressed as much as it is here, so that our agitators really mean that English manufacturing causes that of Germany to fall off and German manufacturing that of England, whereas the natural inference would be that a common effect must have a common cause, and that it is something else than competition which makes foreign and English manu-

facturing be simultaneously depressed. But, apart from direct arguments as to the causes of the present depression in trade, we think it may be useful to inquire into the meaning of the words so freely employed. What would happen if English manufacturing were "declining" to any material extent and foreign manufacturing beginning to take its place? What would be the loss of income or transfer of labour and capital involved? If people were accustomed to measure their words in such discussions, or realise to themselves what they mean, a good deal of loose talk would be prevented, and a juster and more practical view formed of the economic incidents of the hour.

To take first the question of our foreign export trade. How much of the national income is really derived from that trade? To judge by the common language of the agitators we refer to, England would be nothing without its exports to foreign nations. Almost our whole trade and industry, it seems to be thought, would be at an end; an extensive emigration would be necessary; we should be a ruined nation. But, apart from questions as to the mutual conveniences of our exchanges with foreign nations, from whom we get much we cannot produce at home, and to whom we also send much they cannot produce at all, and much they cannot produce so easily as what they send us —conveniences which are such that the total extinction of our foreign export trade is inconceivable —we believe it may be affirmed that the possible loss of income from the entire loss of our foreign trade would be a most measurable and by no means a fatal injury. It may be calculated that the earnings of the people of the United Kingdom approximate at the present moment £1,200,000,000 sterling a-year, if they do not exceed that amount. Mr. Dudley Baxter, in his well-known book on the "National Income," published

in 1868, computed that in the previous year the aggregate income of the people was £814,000,000, and there is ample reason to believe both that he was fairly accurate and careful in his calculations, into which the element of conjecture enters comparatively little, and that since he wrote the numbers, wealth, and resources of the people have increased at a wonderful rate. In these estimates there is one central fact about which there is no dispute—the amount of income assessed to income-tax; and we know that income has increased over 40 per cent. in the last ten years of which we have an account. In the year ended the 5th of April, 1865, the gross amount of annual value assessed to income-tax was £396,000,000 sterling, and in 1875 the corresponding amount was £571,000,000. This is an increase of very nearly 44 per cent. in ten years, and shows with what rapid strides the country has progressed. In 1865, again, the amount charged to income-tax, as distinguished from the gross annual value, was £349,000,000 sterling, while in 1875 the corresponding figure is £498,000,000 sterling, the increase being at the rate of 43 per cent. Taking into account the increase of exemptions and abatements from the income-tax, which has been a characteristic of our recent finance, we can well believe that the real increase of net income must have been more, and must have exceeded the proportionate increase of gross income. That the net incomes chargeable to income-tax, if the exemptions were the same now as in 1865, would considerably exceed £500,000,000, there can be no doubt; and altogether, allowing as well for the incomes under Schedule D which escape assessment through incomplete returns, we can hardly err in placing the net incomes of the income-tax paying classes at somewhat about £600,000,000 sterling. But the income thus arrived at does not include the large incomes in the aggregate of

the wages-receiving classes, or the incomes of many in the upper and middle classes which are under the income-tax limits; and this remainder can hardly be taken as less than another £600,000,000. What with the increase of population and the great rise of wages which has occurred since 1867, there is no reason to believe that the proportion of the aggregate income of the country to what pays income-tax is less now than it was when Mr. Dudley Baxter wrote, and this proportion would give about £1,200,000,000 sterling as the aggregate. There is thus some sanction beyond mere conjecture for putting the aggregate income of the country at the latter figure.

Now, to come to our present question—How much of this income is derived from our foreign exports? We perceive at once that instead of these exports being our main business, it may be doubted if they contribute more than an eighth or so much to the total. Last year, which we take to be a more normal year for prices than such years as 1872 and 1873, when our exports seemed so much augmented, we exported goods of British and Irish produce to the value of £200,000,000 sterling. But this amount was not in reality exclusively British and Irish produce. It included the value of an immense amount of raw material imported from abroad which we had worked up—where we had added to, but had not created the whole value. It included, for instance, in cotton, yarn, and piece goods, about 970,000,000 lbs. of raw material, worth, say, £25,000,000 at the average price of the cotton imported in the same year. It included, again, in woollen yarn and manufactures, about 140,000,000 lbs. or more of raw material, worth, say, £10,000,000 at the average price of the wool imported in the same year. Altogether, deducting for the value of raw material in these exports which had previously

been obtained from abroad, we doubt if we can estimate the probable maximum amount of the net income directly derived from our exports as more than £140,000,000. In addition, there are, no doubt, indirect benefits in the connection between our trade and shipping interests which are difficult to estimate, but no large sum important for such an inquiry as the present would fall to be added in that way to the amount. Comparing, then, £140,000,000 with £1,200,000,000, it is at once seen that the labour and capital engaged in foreign manufacturing is only a fraction of our whole industry. England might still be a great and prosperous country—not so great and prosperous as it is now, but still great and prosperous—even if the whole of that fraction were to be at once swept away. But even if we were to lose our entire foreign custom, the whole of the income from what we send to foreigners would not be lost. The machines and tools used in manufacturing and the labourers would remain, and some use could be made of them. Only the difference between what would be earned in that use and what we now get from abroad in return would be lost. The precise net loss would be difficult to state; but it would be something much less than £140,000,000, and perhaps not a tenth or a twelfth of the aggregate income of £1,200,000,000. It is evident that no such loss would be fatal to a great country. It would make us no worse, probably, than the reimposition of the taxes which have been remitted during the last twenty years, and would be a less calamity, in proportion, than the economic losses of the Franco-German War to France, which was much less fitted beforehand than we are to stand such a calamity. Probably it could all be made up by the community sacrificing only a portion of that additional leisure which it has acquired during the

last thirty years, in addition to the increase of money, wages, and profits.

But there is, of course, no question of losing our whole foreign custom at one fell swoop. What people have in their minds is that we are threatened with the loss of a considerable part of our export trade. They should be asked, then, to define what they mean by a considerable part. Is it a half, a fourth, a fifth, or what? Of course, as we reduce the amount, the ridiculous smallness of it, compared with our whole industry, becomes apparent. The loss of a fifth of our foreign export trade would only be the loss at most of a fortieth or fiftieth part of our whole income, which a very little additional industry would make good. Looking at the matter in this way, besides, there is one conspicuous illustration that a considerable breach in the foreign trade is not fatal to our whole industry. In 1863-65 England suffered from the cotton famine, which came upon us quite suddenly. But, saddening and distressing as the results of that famine were, the distress was merely local; the country, as a whole, prospered, and probably the distress in Lancashire would have been less but for the common expectation of a more rapid turning of the tide than what actually occurred. The diversion of labour and capital to other pursuits was retarded by the belief that the loss of trade was only to be temporary.

On the other hand, while our foreign export trade is small in proportion to our gigantic industry as a whole, it is large enough to make it a very difficult matter for any foreign competitors to displace us materially. The capital sunk in producing annually £140,000,000 of value must be immense—at least several hundred millions. But even £100,000,000 would not be easily found in the whole civilised world outside of England for the erection of new

works to compete with our manufactories. The annual accumulations of France are computed at £60,000,000 a-year, and of Germany at £40,000,000; and the accumulations of the United States must also be very large. But the accumulations are not free savings, to be directed into any enterprise. They are largely used in building houses, in furniture, in improving land under the direction of its owners, and in other ways, so that it is only a small surplus which is annually available for new enterprise. We see, therefore, what an effort of imagination is required when the displacement of England as a manufacturer for export is talked of. Even if she could be displaced at once from her whole export trade, the loss would be much less than is sometimes thought; but the amount of capital required to displace us even partially is so great that it must take many years for our competitors to accumulate any such amount. The displacement of labour, we believe, would be an equally serious matter; for workmen are not made in a day, and many more skilled workmen must be trained abroad if they are to undertake any serious part of the labour which is now performed in England. There is even a more serious difficulty, we believe, in the way of quickly-increased foreign competition. It is the complexity, variety, and minute subdivision necessary in great manufacturing enterprise which make displacement almost inconceivable. No workshop is complete in itself; we doubt if any manufacturing town is complete; England is one vast workshop, fitted with complete appliances of every sort, with a capability of turning on great force in any given direction, unexampled and not even approached elsewhere. But, apart from this complexity, we are content to call attention to the mere amount of the capital involved in any question of a material transfer of our foreign export trade.

We come, then, to the question of our home trade. Foreign nations, we are told, are not only going to do without us and cease altogether to be our customers; they are to send goods here and cut up our home manufactures. But our remarks in the last paragraph apply with tenfold force to the question of such a foreign invasion. If foreign nations are likely to find it difficult to procure capital which would enable them to take away a material part of our foreign export trade, how are they to find capital to make any impression on our vast manufacturing industry for home consumers? Here it is a question, not of hundreds, but of thousands of millions of capital, and of a transfer of labour which fairly takes one's breath away. In this respect foreign nations would have to begin at the beginning. Of our whole imports in 1876, amounting to £375,000,000, little more than £40,000,000 were of manufactured goods, and these included a great deal which we could hardly make for ourselves at home, even if our workmen were not otherwise employed; while the manufacturing in them, representing wages and profits—*i.e.*, exclusive of the value of raw material, which we should have to buy in any case—would only be a part of the total. How are foreign nations to add seriously to this relatively insignificant sum, at least within any reasonable limit of time to which we can look forward? If they are to displace any considerable part of our home trade, the work must be one of generations, and it is not to be lightly associated with a few isolated augmentations of imports of Belgian iron or American cotton goods.

We trust we shall not be misunderstood. We have not a word to say against efforts to keep the public informed of the prices of foreign manufactures and the nature of their competition with our own manufactures at points where there is competition. There is enough indolence and

routine and mismanagement even in English manufacturing to make it desirable in every way to have the stimulus of foreign competition applied. But when the decline and ruin of our whole manufacturing, or even any material part of it, are talked of, people should know what they mean. If they did know, they would not, as sensible men, confuse their minds with notions which are just as sensible and relevant, and no more, as the familiar illustration of Tenterden Steeple being the cause of Goodwin Sands. Harm is done in the end by all such confusion of ideas, including the harm in the present case of distracting attention from the obvious causes of the depression of our foreign trade.—[1877.]

## VI.

## THE EXCESS OF IMPORTS.

We have shown in the previous essay, how little "Foreign "Competition" has to do with the existing depression in trade—what displacement of labour and capital would be apparent if foreign manufacturing was really taking the place of our own. The curious inability to measure economic facts, to assign an arithmetical value to the phrases so freely used, which we noticed in that essay as the origin of the confused talk about foreign competition, is equally manifest in another attempt which is made to explain the present depression. We are told that the nation is living on its capital. The excess of imports over exports, it is said, is so great that, after making all allowance for the difference in the modes of valuing imports and exports, and for the sums due to the nation for freights and interest of capital invested abroad, there remains a considerable margin, which is only brought to us in exchange for securities which we sell, or for capital invested abroad which we are otherwise calling in. The conclusion is forthwith drawn that we are living on our capital; that this sale of securities or calling in of capital means the exchange of that capital for consumable commodities which come home to be consumed, and the consumption of which leaves the nation so much poorer than before. The result, it is further said, will be a stringent money market, a tendency for bullion to leave us, and other evils, until enforced economy again puts matters to rights. No economist will deny that saving is the way at all times to become rich, and, as in the case of foreign competition,

we are at one with the practical conclusion drawn; but, as in that case also, we must censure the arguments supporting it. The excess of imports certainly in no way proves that the nation is living on its capital. On the contrary, even in a time like the present, there is a steady accumulation in progress. All that is effected by the vague talk in an opposite sense is the diffusion of a false belief which tends to paralyse our industrial energies and to produce, so far, the very evils which are feared.

Before the nation, as a whole, can be "living on its "capital," it must have ceased to accumulate, and be selling out on balance what it possesses. If it is parting with capital in one direction and accumulating in another, we must set the one operation against the other, and see where the balance lies. The moment we do this we perceive what large conclusions the people are committed to who talk about the nation as consuming its capital. The usual accumulations of capital in England cannot be reckoned at less than £200,000,000 a-year.* Annually there is a vast expenditure in improving land, in new buildings, in railway works, in new plant and machinery for every species of industry, in new furniture for dwelling-houses, in street and other improvements by local authorities, in additions in some form or another to the various descriptions of fixed capital which an old country possesses. In all these directions the annual outlay in the United Kingdom must come to, at least, the amount stated. We know from the income-tax returns that the annual value of house property alone in the ten years ending 1875, rose from £69,000,000 to £95,000,000 sterling, an increase of no less than £26,000,000 sterling, representing an increased capital value,

* See the following essay for an elaborate discussion of this question.

at fifteen years' purchase only, of nearly £400,000,000, or £40,000,000 a-year. In the same period the annual value of land increased from £62,000,000 to £67,000,000, or £5,000,000 sterling, which represents, at thirty years' purchase, an increased capital value of £150,000,000 sterling, or £15,000,000 a-year. The railway capital, at the same time, according to the railway returns, increased from £455,000,000 to £630,000,000, or £175,000,000; that is, at the rate of £17,500,000 yearly. The mines, canals, gasworks, quarries, iron-works, and "other profits" also show, in the same period, an increase of £17,000,000 in the annual value assessed to the income-tax, which represents, at a moderate estimate, an annual addition of about £20,000,000 a-year to the capital of the country. The sums thus enumerated amount to nearly £100,000,000 sterling, and they include nothing for the investment of capital in many other forms of business, though we know from Schedule D. that business in these forms has increased even more rapidly than the descriptions of property above enumerated. Exclusive of the above, the increase of Schedule D. between 1865 and 1875 amounts to £114,000,000; and the increase of capital to correspond, whatever way we reckon the capital value of the increased income, must be immense. The amounts enumerated also include nothing for furniture and works of art—the contents of houses—although the annual additions to these are probably not far short of the annual additions to the dwellings themselves. The estimate, therefore, of £200,000,000 as the annual savings of the United Kingdom is by no means an extravagant one; and, to come to our present argument, this annual accumulation must cease and we must be selling out from our stock before we can be said as a nation to be living on our capital. It must not merely

be shown that we are parting with some of our capital. That may only mean that we are changing our investments —that we have exchanged as a nation our interest in some American railway, or part of our interest in the securities of the American Government, for an addition to our railway system at home, or for some other home investment. The operations must be looked at as a whole, and not merely a fragmentary part of them considered.

But looking at the matter in this way, we perceive at once that even in a year like the present there must be in some directions an immense saving in progress. As regards house building, we know that at the present time it is as active, or more active, than at any time during the past ten years; that the accumulation in this direction is probably now at a maximum and not at a minimum. As regards land we also know that the work of reclamation and improvement is constantly in progress. In Great Britain the addition to the cultivated area in the present year, apart from improvements in land formerly cultivated, amounts to 160,000 acres. As regards railways it is impossible yet to state the capital outlay for the present year; but last year about £20,000,000 were spent in new railway works (although the complaints of dulness were as rife last year as they are now), and we gather from the accounts of the principal companies for the first half of the present year that the outlay has continued. Indeed, it is constantly urged by some that railway dividends are endangered by the continuous and unceasing outlay of new capital. We have fewer data as to the other kinds of property until the income-tax returns for the current year are made up and published, and possibly in ironworks and in other ways, there is less new outlay at present than there is immediately after very prosperous years; but it is quite certain that in the aggregate here, too, a considerable

saving is in progress. It is well understood in business that times of dulness are the best for increasing and improving plant, substituting improved machinery for what is old and wearing out, and generally making arrangements for the steady progress of the staple trades of the country which are constantly increasing with the equally steady increase of population. Such is the division of labour also that, if the investment of new capital were reduced to any material extent below the average, the effect would be instantly seen in vast masses of labourers out of employment, and a great increase of pauperism; whereas there is nothing of that sort yet visible which may not be accounted for by a very small diminution of the ordinary annual investment of new capital. But, not to include uncertain data of any kind, it is evident from the prosperity of the building trades, and from the known outlay on land and railways which we have referred to, that the accumulation in 1877 in some directions must at least be about £100,000,000 sterling, and we doubt if it really falls much short of twice that amount. To prove that we are living on our capital, therefore, it must be shown that a sum equal to between £100,000,000 and £200,000,000 and more is wasted or spent in some other direction. Those who point to the excess of imports as a proof that this is the direction in which the nation is living on its capital must be taken to mean that the excess of imports, after making all deductions for freights and other charges, and for what comes to us as interest of our foreign capital, is over £100,000,000 perhaps over £200,000,000 sterling. Unless the excess is as great as this, all that it could show would be that the country is changing its investments—that it is diminishing the investment of capital abroad, and increasing the investment at home; but on balance it is investing and not spending.

There is no contention, however, that the excess of imports is anything like so great as has been stated. During the last six years the nominal excess has been:—

| | Imports (in Millions). | Total Exports (in Millions). | Excess of Imports (in Millions). |
|---|---|---|---|
| 1871 ... ... | £331 | £284 | £47 |
| 1872 ... ... | 355 | 315 | 40 |
| 1873 ... ... | 371 | 311 | 60 |
| 1874 ... ... | 370 | 298 | 72 |
| 1875 ... ... | 373 | 282 | 91 |
| 1876 ... ... | 375 | 257 | 118 |

And from these figures, to show the true excess, great deductions must be made, as every authority allows and the most ordinary common-sense will show. The difference in valuation through the exports being valued minus the freight and charges to the place of destination, and the imports being valued plus the freight and charges from the place of despatch, must amount to many millions. The interest on our foreign investments must also be many millions, no good authority that we know of making the annual sum less than £30,000,000, and the more correct sum being probably twice that figure.* Without going into minute estimates we may point out—what indeed lies obviously on the surface—that the years 1871, 1872, and 1873 were years in which the nation was largely investing capital abroad; that the nominal excess of imports in those years, therefore, amounting to between £40,000,000 and £60,000,000 annually, was a balance we remained entitled to after crediting foreign nations in the account with the amount of our new investments abroad; and that the excess of imports in subsequent years can only

* Or thrice that figure. See next essay.

show a sale of securities or calling-in of capital to the extent of the difference between the excess now apparent and the nominal excess of those years plus the capital we then invested abroad. In other words the maximum sale of securities or calling-in of capital in any one year since 1873 must be less than the difference between the excess of imports in that year and the subsequent excesses—viz.:—Excess of imports in 1874, less £60,000,000, the excess of 1873, £12,000,000; excess of imports in 1875, less excess of 1873, £31,000,000; excess of imports in 1876, less excess of 1873, £58,000,000. These are the limits within which we can have been selling securities or calling in capital from abroad, even if the excess of imports in former years had not arisen after crediting the foreigner with the loans we were making; but the deduction to be made in the computation on account of that credit must be very large. Looking at the amount of foreign issues of every sort in 1871-73, we think it would be a moderate estimate to put down our new foreign investments in those years at not less than £50,000,000 or £60,000,000 sterling annually, in which case the above figures would show that there is yet no calling-in of capital in progress—that having ceased to lend to foreign nations we now ascertain what the normal state of trade is between us and them. Even if we made a less deduction, if we considered that we were exporting only £20,000,000 or £30,000,000 of capital annually in 1871-73, it would only be since the beginning of last year we can have been calling in capital on balance, and the amount so called in is not more than between £30,000,000 and £40,000,000 sterling annually. This is all the "living on our capital" which can be in question, and it is obviously very much less than the new investments at home which have been simultaneously in progress. In other words there is no proof at

all in the figures, turn them how we may, that the nation is living on its capital. It is doubtful whether they even show any considerable sale of securities or calling-in of capital at all, but the maximum possible amount of the securities sold or capital called in falls greatly short of the accumulations simultaneously being made at home. What is more, the figures, large as they are, are ludicrously small compared with the whole mass of English capital. Our savings in the last ten years, at the rate of £200,000,000 a-year, which is a minimum estimate, would amount to £2,000,000,000 sterling. Even if we were losing £40,000,000 of capital for a year or two, therefore, the annual loss would not be more than two per cent. of the additions to our capital during the previous ten years—a fact which would be serious in many ways, but still very far short of showing the ruin of the country, or of showing a loss which could not be quickly made up. To put the matter another way, we should be losing a sum for a year or two equal to a fifth part of our average annual accumulations. But we are not "losing" even this two per cent. on our previous ten years' accumulations, or fifth part of our average annual savings; we are not living to that extent upon our capital. We are only substituting *pro tanto* an investment at home for an investment abroad, and we are making besides large accumulations at home.

To what extent are we really parting with our foreign securities or calling in our foreign investments, and what will be the effect on the money market? We should recommend very great caution before the conclusion is accepted that the nation as a whole has been diminishing its investments abroad to any material extent permanently. It must be remembered that there is a considerable amount of cosmopolitan capital which is freely moved, and that the

circumstances of the last two or three years have tended to cause a transfer of a part of this fund from England to foreign nations. The produce of our agriculture has been below the average, and to that extent the annual income of the nation has been less. It has been necessary to increase suddenly our imports of food from abroad. Trade in the United States has also become more active than it was, requiring consequently the supply of more capital. The foreign credit on England is thus temporarily increased, and to meet the circumstances a part of the cosmopolitan fund is transferred from England for employment elsewhere, which can readily be done by the transfer of securities. But the amounts passing are insignificant compared with the whole capital of the United Kingdom, or of the foreign nations to which a part of this movable fund passes temporarily. Special sales of securities to the extent of two or three millions would be large operations for the exchanges, but they would not be considered large in a question of a nation like England losing its capital. Nor is the transfer necessarily permanent. A good harvest next year would diminish the foreign credit on England, or trade may improve with us causing a demand for more capital and the re-transfer here of a part of the cosmopolitan fund. The movements to and fro of this floating capital are obviously important to exchange dealers, but the country losing it is not, therefore, "living on its capital," and the conntries receiving it are not acquiring capital permanently to the detriment of others. In addition, during the last year or two the nation may have parted with some of its foreign securities permanently, sales being induced by the great discredit of foreign issues; but apart from the evidence already given it must be plain to those who will reflect that, as a rule, the sales by the "public" in England during the

last year or two were not sales to foreigners, but they were sales to a speculative class in London, who were ruined by the purchases, and who still retain the securities for what they are worth. If, indeed, there had been a larger transfer abroad of securities not now yielding any interest it might have been better for us, and it would certainly have been advantageous to exchange them for the means to invest at home.

We should not look, therefore, for any unusual effects on the Money Market or other mischief in consequence of the large nominal excess of imports over exports. If there is a momentary balance against us in consequence of our bad harvests it is being adjusted most naturally by a transfer of securities, which is probably only temporary, and we have plenty of means for adjusting similar balances for a long time to come. The situation is no doubt such that money tends to be dearer with us than it would have been if our harvests had been good; but all experience has shown that the cosmopolitan fund moves readily, and a moderate increase of our rates for money, as, indeed, is proved by the experience of the last two months, will suffice to retain capital in Lombard Street, though, as yet, the rates have not been raised to a point at which a strong influx of bullion will occur. The money market is much more likely to be affected by a demand for bullion for the United States and Germany, the former to resume specie payments, and the latter to continue its new coinage operations. But the stringencies which may thus arise are not to be traced to causes of a very different order, and which would have deeper and more far-reaching effects if they were really in operation as supposed.—[1877.]

# VII.

## RECENT ACCUMULATIONS OF CAPITAL IN THE UNITED KINGDOM.*

The members of this Society will readily understand that the subject of this paper is not one on which very exact statements are possible. It would only be by a careful inventory of the national wealth made on a specified date by competent valuers, with all the appliances of a national census and ordnance survey at their command, that a near approximation to an absolutely correct account could be obtained; and it would only be by comparing two such statements at different dates that we could get a similarly exact account of the increase or decrease in a given period. That any such valuation is ever likely to be made in any country may well be doubted. The minuteness of inquiry which would be needed to avoid cross entries, the obstacles presented by the difficulty of finding sufficiently numerous and competent valuers, and by the opposition of individual owners of property, the doubt which would always exist about even the best valuation, owing to the frequency and magnitude of the mistakes which are discovered when valuations are brought to the test of actual sales, are all reasons against the attempt at any such valuation. In the United States, it is true, such valuations are apparently attempted for the purposes of State taxation, and there is a valuation at every census, but it is quite certain that no small amount of personal property escapes the notice of the valuers, and the result is unsatisfactory. Even if such valuations could be made at given dates, comparisons between the valuations at two different dates would be liable to be thrown out by changes in the interval in the

* Read before the Statistical Society, 15th January, 1878.

level of prices through the increase and decrease of money, changes in the instruments and forms of credit, which alter the effectiveness of the same amount of money, and changes in the amount of credit itself, apart from the instruments it uses. In the United States, for instance, it would be very important, in comparing the valuations of 1860 and 1870, to allow for the depreciation of the standard in the interval, through the large increase of paper money. These are all reasons for being content with approximations only in such a question, and for treating the whole subject with the utmost care and caution. They must also be my excuse in part for avoiding anything like elaboration and minute treatment of certain points. My object is not to treat the subject exhaustively, but rather to bring together and continue certain well-known data which have been made use of in similar inquiries previously, and which will justify some broad conclusions, although a great deal must be left in doubt.

The uses of such an inquiry, if conclusions sufficiently trustworthy are obtainable, are obvious enough. It is one of the means of taking stock of national progress or the reverse. We compare at different times the numbers of the population and the amounts of crime and pauperism in a country as some test of its moral progress; or the numbers of the population and particulars of certain home and foreign trades, or of the consumption of certain articles, as a test of material progress. In the same way we may compare the population at different times with the accumulated wealth or the rate of increase of population with the rate of increase of wealth as a test of progress, partly moral and partly material. The particular advantage of this last comparison will also be that it answers directly some important public questions as to what the margin of taxation is in a country, and whether and how much it is increasing or diminishing.

There are other questions, as we shall see, on which such inquiries throw light, but the direct information to be expected as to the increase or decrease of wealth, and as to national resources and burdens, may be kept primarily in view.

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## *THE PRESENT VALUATION OF THE UNITED KINGDOM.*

BEFORE estimating what the recent accumulations have been, it will be expedient to have some view of what the existing capital or property is. We can then compare this sum with similar estimates at former periods, and the rate of increase apparent with such indirect evidence as we may procure as to what the rate of increase must have been.

The most convenient basis for such a proceeding appears now to be the income-tax assessments. This is the plan adopted in 1863, by a writer in the *Economist* (see *Economist*, December, 1863), who is believed to be an eminent member of this Society, and whose contributions on this head have, at any rate, obtained wide circulation and acceptance. The method is to discriminate as far as possible in these returns the different sources of income, capitalise these at a suitable number of years' purchase, and then make an allowance or conjecture for the capital of the income not liable to income-tax or which otherwise escapes assessment, and for capital which is not treated in the income-tax returns as income yielding. The result, up to a point, if we proceed with care, is apparently trustworthy enough. We are quite sure in the first place of the existence of the income returned, whatever balance unreturned there may be; we can be tolerably safe also in not assigning too high a number of years' purchase to the particular descriptions of property; we can arrive in this

way at a minimum sum, which cannot be more than the actual property in the country, though it may be much under the true amount. The conjecture as to the remainder may also be of such a kind as to command some confidence in its not being excessive.

Proceeding in this way, we find that the gross annual value of the income-tax assessments in the year ended 31st March, 1875, the latest year for which we have particulars, was £571,000,000. The details under each schedule for the United Kingdom since 1853, when Ireland was subjected to the income-tax, and for Great Britain previous to that date, will be found in one of the tables in the Appendix;* but for the present purpose we must discriminate even more minutely than by schedules. Schedules A and D in particular require to be analysed. Various returns of the Inland Revenue Department have of late years enabled us to do this as to "lands" and "houses" under Schedule A, and "mines," "ironworks," "railways," "canals," "gasworks," "quarries," and what are called "other profits," under Schedule D. These returns are also summarised in one of the tables in the Appendix to this paper.* Still more a return, printed in the 19th Report of the Inland Revenue Department (Appendix, p. xviii), gives a more minute classification of Schedule D. Using these sources of information, I have drawn up a table, showing the amount of income in the property and income-tax returns, which is presumably derived from capital, the number of years' purchase in each case at which it appears safe to capitalise the income, and the approximate amount of capital thus deduced, adding an estimate for the remaining property and capital of the country:—

* I have not reprinted the tables here. They will be found in the Statistical Society's Journal for March, 1878.

A.—*Amount of Income in Income-Tax Returns, derived from Capital, Number of Years' Purchase at which the same may be Capitalised, and Approximate Amount of Capital; together with Estimate of remaining Income and Capital in the Country.*

[000's omitted in amount columns.]

| | Income. | Years' Purchase. | Capital. |
|---|---|---|---|
| *Under Schedule A*— | £ | | £ |
| Lands ... ... ... ... ... ... | 66,911, | 30 | 2,007,330, |
| Houses ... ... ... ... ... ... | 94 638, | 15 | 1,419.570, |
| Other profits ... ... ... ... ... | 883, | 30 | 26,490, |
| *Schedule B*— | | | |
| (Farmers' profits) ... .. ... ... | 66,752, | 10 | 667,520, |
| *Schedule C*— | | | |
| (Public funds less home funds) ... | 20,767, | 25 | 519,175, |
| *Under Schedule D*— | | | |
| Quarries ... ... ... ... ... ... | 916, | 4 | 3,664, |
| Mines ... ... ... ... ... ... ... | 14,108, | 4 | 56,432, |
| Ironworks ... ... ... ... ... | 7,261, | 4 | 29,044, |
| Gasworks ... ... ... ... ... | 2,630, | 20 | 52,600, |
| Waterworks ... ... ... ... ... | 1,869, | 20 | 37,380, |
| Canals, &c. ... ... ... .. ... | 1,007, | 20 | 20,140, |
| Fishings ... ... ... ... ... ... | 207, | 20 | 4,140, |
| Market tolls, &c. ... ... ... ... | 842, | 20 | 16,840, |
| Other public companies ... ... | 25,647, | 15 | 384.705, |
| Foreign and colonial securities, &c. | 6,836, | 15 | 102,540, |
| Railways in United Kingdom ... | 26,215, | 25 | 655,375, |
| ,, out of ,, ... | 1,330, | 20 | 26,600, |
| Interest paid out of rates, &c. ... | 2,647, | 25 | 66,175, |
| Other profits ... ... ... ... ... | 1,120, | 20 | 22,400, |
| Trades and professions—one-fifth of total income of £175,000,000 ... ... ... | 35,000, | 15 | 525,000, |
| Total under income tax ... | 377,586, | — | 6,643,120 |
| Trades and professions omitted, 20 per cent. of amount assessed, or £35,000,000, of which one-fifth is ... ... ... ... ... ... ... ... | 7,000, | 15 | 105,000, |
| Income of non-income-tax paying classes derived from capital ... ... ... ... ... | 60,000, | 5 | 3 0,000, |
| Foreign investments not in Schedules C or D... | 40,000, | 10 | 400,000, |
| Movable property not yielding income, *e.g.*, furniture of houses, &c., works of art, &c. | — | — | 700,000, |
| Government and local property, say ... ... ... | — | — | 400,000, |
| | 484,586, | — | 8,548.120, |

The first point I would observe upon in explanation of this table, is the proportion between the income returned to the income-tax and the amount here capitalised. The income assessed, as has been stated, is £571,000,000, and the amount now capitalised is £378,000,000. The difference is £183,000,000, and is accounted for (1) by the large amount of the income from trades and professions under Schedule D which is not capitalised. The total income is £175,000,000, and the amount capitalised is £35,000,000, or only one-fifth, leaving £140,000,000 which is not considered to be derived from capital; (2) by the deduction from Schedule C of the amount of the permanent charge of our own national debt in 1875-76, viz., £21,737,000; and (3) by the omission of Schedule E, amounting to £32,540,000. These three sums make up the £183,000,000 of difference between the total income assessed to the income-tax and the amount which is treated as derived from capital. As regards the first of these deductions, I have been guided by the practice of Mr. Dudley Baxter, whose great loss to the study of statistics we have still to regret. In his paper on "National Income," which was read exactly ten years ago to-night to this Society, he stated:—"Trades and pro-"fessions require working capital, the interest on which, in "the opinion of competent judges, amounts to one-fifth of "their gross income." Perhaps we should credit "trades "and professions" with a larger working capital, but I should be willing in such a matter to be guided by so high an authority, while I have been desirous at every point to avoid too high an estimate.

As regards the second deduction, it will only be proper, I think, that in such a computation as this, we should not reckon the national debt twice over, and that would be the effect of our capitalising the whole of Schedule C. The

national debt is a mortgage upon the aggregate fortune of the country. As we may assume it to be practically all held at home, we may reckon up our whole estate without deducting the debt, whereas we should have to deduct it if it were held by foreigners; but while we do not deduct the debt from the total of our estate, neither can we add it without falling into error.

As regards the third deduction, the whole of Section E, there can be little question. Schedule E consists *eo nomine* of salaries, pensions, and annuities, and is not earned by capital. Perhaps we should deduct the capital value of pensions and annuities on the same principle that we omit the capital value of the interest of the debt; but as pensions and annuities are payments in the nature of salaries, though for past not present services, it would perhaps be unfair to treat them as dead weight and a mortgage on the national resources. The amount in any case would not much affect the aggregate income, which would still be very large.

The next point I would draw attention to is the number of years' purchase of the principal items of income. I do not think anything need be said in explanation of the estimate for the largest item of all, viz., thirty years' purchase as the rate for capitalising land. Some may think that even a greater number of years' purchase might have been employed; but we must again carefully guard against excessive figures.

The estimate for houses, again, will be considered, I trust, very moderate. The same number of years' purchase was employed for some calculations in the last census report, although other authorities have reckoned twenty years' purchase. I should say that at the present time twenty years' purchase would not be too high, though I hesitate

to take so high a number of years, especially as the figures are to be used in comparison with former periods, when house property may not at all times have commanded so great a number of years' purchase as it does now. At any rate, by taking a low number of years, we avoid difficult questions about deductions for repairs and the like, and, in a question of accumulation, the difference between the cost price of building houses and the sums at which we capitalise the income from them.

The next large item, that of farmers' profits, is taken at ten years' purchase only. The resulting total is rather less than £700,000,000, which again is less than the value of the three years' gross produce of our agriculture, which is estimated, I believe, by the best authorities at £250,000,000 annually. Whether this figure is sufficient for farming capital as distinguished from that of the landlord, it will be for those well acquainted with the subject to judge. I have been desirous again to take a low figure.

Coming to the next item, Schedule C, here again I believe there will be no question of the propriety of twenty-five years' purchase. Looking at the price of Indian securities and Colonial Government loans, the income from which, no doubt, forms a large part of Schedule C, exclusive of home funds, we can hardly be far wrong in reckoning that the capital invested in these securities brings in on the average about 4 per cent.

Of the remaining items little need be said. The estimates of twenty-five years' purchase for railways, twenty years' purchase for gasworks and waterworks, four years' purchase for mines, ironworks, and the like, can in no case, I should think, be thought excessive. The same with the estimate of fifteen years' purchase for miscellaneous public companies, which would include banks, telegraph companies,

insurance companies, and the like; and with the estimate of fifteen years' purchase for that small portion of the income of trades and professions which is considered to be derived from capital. By speaking of a fifth of trade and professional income as being interest on capital, we, in fact, imply that only a usual or legal rate of interest is considered to be derived from capital, and the remainder of the income is due to professional exertions. In this view we should capitalise the trade and professional income derived from capital at perhaps twenty years' purchase, and we are therefore moderate in capitalising at fifteen years' purchase only.

There will be more doubt, perhaps, about the last five items, where we have not the advantage of working from the income-tax assessments, and which I have put in a smaller type than the rest of the table to distinguish the difference of basis in the estimate. But we cannot avoid making an estimate of some kind in these cases. The first case, that of trade and professional incomes, not returned under Schedule D, which I estimate to be 20 per cent. of what is returned, is, unfortunately, as we all know from the Inland Revenue Reports, a "true bill." In this category a certain amount of income liable to be taxed, does escape the officials of the Inland Revenue Department. The loss in this way has been estimated as high as one-third; Mr. Dudley Baxter reckoned it at 16 per cent., from which the present estimate of 20 per cent. does not vary materially. I have capitalised this income at the same number of years' purchase as the similar income returned under Schedule D.

The next item, that of the income of the classes who are not charged to income-tax derived from capital, is necessarily very conjectural. Mr. Dudley Baxter considered this

capital so small that it might be disregarded. Perhaps this would be going too far, considering the large amounts which must be invested in workmen's tools, and also the large number of small retail dealers there are throughout the country, the costermongers, greengrocers, and the like, who have all some capital, but who cannot be got hold of by tax collectors, or whose incomes are really under the minimum. Taking the income of the non-income-tax paying classes at about £600,000,000, which is about the amount, if we apply Mr. Dudley Baxter's method of estimating the nation's income at the present time, I have reckoned a tenth as derived from capital, and capitalised at five years' purchase only. The sum thus obtained is again a small one in comparison with the aggregate.

The next item, that of foreign investments, not included in Schedules C and D, will perhaps excite more question. I have put the income thus omitted at £40,000,000 and capitalised it at ten years' purchase only, which I believe to be under-estimated. That there is something omitted is evident from the small amount of income from foreign investments which is dealt with in Schedules C and D. The sums are:—

| [000's omitted.] | |
|---|---|
| Schedule C, less home funds ... ... ... ... ... | £20,767, |
| Foreign and colonial securities and possessions, and other profits (Cases 4 and 5 under rules in Schedule D to Act 5 and 6 Vict., cap. 35) ... | 6,836, |
| Railways out of United Kingdom ... ... ... ... | 1,330, |
| Total ... ... ... ... ... ... | £28,933, |

Now, it is impossible to believe that this £29,000,000 is the total income derived from the investment of British capital abroad. One has only to go over a stock and share list, like that of the *Investor's Manual*, jot down the capital

of the foreign issues brought out in this country, and which are wholly or mainly held here, to perceive that there is something wrong. We have also to consider that there is a large British capital invested abroad privately, through mercantile houses having dependent houses abroad, through insurance companies doing business abroad, through Anglo-colonial banks receiving deposits here and investing them abroad. In a table in the Appendix* I have attempted a computation of the income from the visible part of this great capital. The result is that we cannot put at less than £65,000,000 the income so derived, leaving out of account altogether the investments of private capital, which we know to be very large. In what way the income-tax authorities are to get at the income which now escapes them, it would be out of place here to consider, but apart from the evidence above adduced, I believe I shall be confirmed by those who know the city, in the opinion that much income comes home from abroad which is not returned to the income-tax authorities. These estimates fully warrant me in setting down £40,000,000 as the foreign income omitted from the income-tax returns.

The next item on the list, that of movable property not yielding income, such as pictures, works of art, furniture of houses, old china, &c., is put at the capital sum of £700,000,000, which is half the amount of the capitalised value of houses. Porter estimates a third for this item in his "Progress of the Nation," but considering the material advance since his time, I do not think we can be far wrong in placing the contents of houses at something like half the value of the houses themselves. In any case, if we valued the houses at twenty years' purchase, as some authorities do, one-third of the capital sum so arrived at would come to

* See note on p. 164.

about the figure here stated. My own impression is, that the figure is under the mark, although I have stated it in preference to using a larger figure, in order to have former precedent in my favour.

The last item of all, that of the value of property belonging to Government and local authorities, is necessarily very speculative. There is no property, however, which ought more properly to come into such a valuation. It is the property of the community which is enjoyed in common, and the possession of which has often been bought out of taxes. It includes the value of the land of dockyards and other Government establishments, the plant employed in them, the public buildings and furniture, and the waterworks, gasworks, public parks, embankments, and other possessions of local authorities. The difficulty of valuation arises, however, from the circumstance that we have no statement even of the area of the lands possessed by local bodies, or of what is in Government possession. But the item must be very large. Apart from the local income from property, which is probably included in the income-tax returns, there is an income from harbour dues and the like sources which is really a species of property, and there are large possessions which are devoted to some useful purpose, though not yielding a revenue. The municipal debts still outstanding amount to about £100,000,000 in England and Wales alone, and this is represented by an equivalent outlay for improvements in the localities. We thus arrive at a sum of between £200,000,000 and £300,000,000 as the value of local property; and Government property, although Crown lands only bring in £350,000 a-year, must be something over £100,000,000. It would be useless to attempt detail on a matter like this.

In this way the total capital of the people of the United

Kingdom may be reckoned as a minimum at £8,500,000,000 sterling. This is the capitalised value of the income derived from capital, using as far as possible the data of the income-tax returns as the basis of the estimate, and with the addition of an estimate of the amount of capital in use not yielding an income. It is a bewildering figure, about eleven times the amount of our national debt, which may thus be reckoned with all soberness as a fleabite. Nearly £7,500,000,000 out of this amount besides must be reckoned as income-yielding, only the remaining £1,000,000,000 being set down as the value of movable property or the direct property of imperial or local authorities, which does not yield any individual revenue. The suggestion may perhaps be made that to some extent these are only figures in an account—that the capital outlay on the soil, plant, machinery, factories, and houses of the United Kingdom, or on the circulating capital of our industry, would not come to so much. But in reply I would say that while there is no evidence one way or the other as to what the outlay has been, while we shall never know what it has cost from generation to generation, to give us all this inheritance, there is some justification for thinking that the values are stable and not transitory. They represent an estate on which 34,000,000 of people have facilities for production and distribution, which must be equal all in all to the facilities existing anywhere else, because they are constantly tried in the furnace of free trade, and are not sustained by any adventitious means. If certain properties have acquired what is called a monopoly value, it is because actual workers are able to pay the corresponding rent out of their first earnings, and have ample wages and profit besides. In such matters the property of a great country, like a factory or business, must be valued as that of a going

concern, and the monopoly value which certain things acquire only enters into the question of the distribution of the estate and its income.

It would be additionally satisfactory if we could compare these figures with an account of the actual accumulations, year by year, in the shape of a statement of the capital outlay by public companies in adding to their stock and plant; the actual expenditure on new buildings, ships, and the like; the annual investments abroad, and so on. On some points I have made a few notes of this kind which satisfy me that in this way also very large totals would be brought out. But the obvious difficulty with the method would be that the outlay by private individuals cannot be got at by means of it at all, and this outlay represents the greater part of the increase of capital in the country. At the same time the statement, if it could be given, would be subject to great deductions on account of the improvident investment of capital, as in foreign loans, whereby the savings are not really accumulated, but *wasted*. The method pursued in the present paper seems accordingly the safest and the likeliest to yield a moderate result, although it is liable to the observation that some property may increase in income-yielding capacity from decade to decade, and its capitalised value will proportionally increase, without any actual accumulation.

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## *THE GROWTH OF CAPITAL.*

Our special business to-night is not, however, with the actual capital at the present time, but with the recent accumulations, though a statement of the present amount appeared to be a necessary preliminary. It is evident almost at the outset that the growth must have been very rapid. If we look at the income-tax returns, we perceive

that the gross income assessed rose in Great Britain from £115,000,000 at the beginning of the century, to £130,000,000 in 1815, £251,000,000 in 1843, and £262,000,000 in 1853; and then, in the United Kingdom, from £308,000,000 in 1855, to £396,000,000 in 1865, and £571,000,000 in 1875. If the capital of that portion of the income derived from capital has only progressed at the same rate, the annual increase of capital all through, and especially of recent years, must have been enormous. The increase in the income assessed between 1865 and 1875 amounts to £175,000,000, which is equal to 44 per cent. of the income assessed in 1865. Leaving out altogether the capital not yielding income, and dealing only with the capital yielding income, a similar increase of capital, assuming the present amount to be what we have stated, would give us, for 1865, a total capital of about £5,200,000,000, on which the increase at 44 per cent. would be £2,288,000,000, or, in round figures, £230,000,000 per annum. If our estimate is moderate, and any cause would justify a higher figure for the present capital, then the increase between 1865 and 1875 would be even more than we state. But the increase on each description of capital may not have been uniform, and we must look a little into detail to see what kinds of income, and therefore what kinds of capital, have increased.

Comparing 1865 with the present time in this way, we are met by the difficulty that we have not the full details we now have as to the various schedules, especially Schedules A and D. We can compare certain particulars, however, as far back as 1862, which is one reason amongst others why I have selected a ten years' period only as the principal subject of comparison. In this manner we get a table for 1865 similar to what we have above compiled for the present time:—

B.—*Amount of Income in Income-Tax Returns derived from Capital in* 1865, *and Approximate Amount of Capital, assuming the same Number of Years' Purchase as in Table A; together with Estimate of remaining Income and Capital in the Country.*

[000's omitted.]

| | Income. | Capital. |
|---|---|---|
| *Under Schedule A*— | £ | £ |
| Lands ... ... ... ... ... ... ... | 62,127, | 1,863 810 |
| Houses ... ... ... ... ... ... ... | 68,757, | 1,031,355 |
| *Schedule B*— | | |
| (Farmers' profits) ... ... ... ... ... | 56,181,* | 620,000, |
| *Schedule C*— | | |
| (Public funds less home funds) ... ... | 8,426, | 210,650, |
| *Under Schedule D*— | | |
| Mines ... ... ... ... ... ... ... ... | 4,829, | 19,316, |
| Ironworks ... ... ... ... ... ... | 1,798, | 7.192, |
| Railways... ... ... ... ... ... ... | 16,576, | 414,400, |
| Canals ... ... ... ... ... ... ... | 900, | 18,000, |
| Gasworks ... ... ... ... ... ... | 1,849, | 36,980, |
| Quarries... ... ... ... ... ... ... | 590, | 2,360, |
| Other profits ... ... ... ... ... ... | 3,012,† | 55,000,‡ |
| Other income-tax income detailed in Table A—*estimate* ... ... ... ... | 42,000, | 660,000,‡ |
| Total under income-tax ... ... ... | 267,045, | 4,939,063, |
| Trades and professions omitted, one-fifth of about £100,000,000, of which one-fifth is ... ... ... ... | 5,000, | 75,000, |
| Income of non-income-tax paying classes derived from capital, say... ... ... ... ... ... ... ... | 40,000, | 200,000, |
| Foreign investments not in Schedules C and D... ... | 10,000, | 100,000, |
| Movable property not yielding income, *e.g.*, furniture of houses, works of art, &c. ... ... ... ... | — | 500,000, |
| Government and local property, say ... ... ... ... | — | 300,000, |
| | 322,045, | 6,114,063, |

* This is the amount stated in 1865. Previous to 1875 only the net amount was entered in the returns for Ireland, and in working out the capital an allowance has been made for the difference this made in 1875, about £6,000,000.

† These include the other profits of Schedule A, and waterworks, fishings, market tolls, &c., in Table A.

‡ In these two cases where we have not the same detail as in 1875, the capital is assumed to bear the same proportion to the income in 1865 as in 1875.

In this way, following for 1865 the method of estimating we have used for the present time, we arrive at a sum of £6,113,000,000 as the total capital of that period:—

| | |
|---|---|
| The estimate at present being ... ... ... | £8,500,000,000 |
| That of 1865, say ... ... ... ... ... ... | 6,100,000,000 |
| The increase is ... ... ... ... | 2,400,000,000 |

which corresponds nearly with the increase of 44 per cent. in the income-tax returns themselves. The national estate has thus improved in the ten years at the rate of £240,000,000 per annum.

The following table compares the details of the increase:—

C.—*Approximate Account of Capital as Property in United Kingdom in* 1865 *and* 1875 *compared.*

| | 1865. | 1875. | Increase in 1875. | |
|---|---|---|---|---|
| | | | Amount. | Per Cent. |
| | Mlns. | Mlns. | Mlns. | |
| Lands ... ... ... ... ... ... | 1,864, | 2,007, | 143, | 8 |
| Houses ... ... ... ... ... | 1,031, | 1,420, | 389, | 38 |
| Farmers' profits... .. ... ... | 620, | 668, | 48, | 8 |
| Public funds less home funds ... | 211, | 519, | 308, | 146 |
| Mines ... ... ... ... ... ... | 19, | 56, | 37, | 195 |
| Ironworks ... ... ... ... ... | 7, | 29, | 22, | 314 |
| Railways ... ... ... ... ... | 414, | 655, | 241, | 58 |
| Canals... ... ... ... ... .. | 18, | 20, | 2, | 11 |
| Gasworks ... ... ... ... ... | 37, | 53, | 16, | 43 |
| Quarries ... ... ... ... ... | 2, | 4, | 2, | 100 |
| Other profits ... ... ... ... | 55, | 84, | 29, | 53 |
| Other income tax, income principally trades and professions, and public companies | 659, | 1,128, | 469, | 71 |
| | 4,938, | 6,643, | 1,706, | 35 |
| Trades and professions omitted... ... ... | 75, | 105, | 30, | 40 |
| Income from capital of non-income-tax paying classes... ... ... ... ... ... | 200, | 300, | 100, | 50 |
| Foreign investments not in Schedules C and D ... ... .. ... ... ... ... | 100, | 400, | 300, | 300 |
| Movable property not yielding income ... | 500, | 700, | 200, | 40 |
| Government and local property, say ... | 300, | 400, | 100, | 33 |
| | 6,113, | 8,548, | 2,436, | 40 |

Generally, I believe, it will be admitted these details correspond with what we should expect to find. The small increase in lands and farmers' profits is what we should expect to find from the comparative stationariness of agricultural industry, while there is a comparatively large increase in railways, somewhat above the average, and an enormous increase in mines and ironworks, corresponding to the rapid development of iron and coal mining under the influence of the inflated prices of 1871-73. In the latter case probably part of the increase may be due to improved valuations, but it is in this direction certainly we should have looked for a great increase. So far as it goes, also, the increase of "Public Funds," Schedule C, is in correspondence with the fact of immense public loans to foreign countries in recent years, though it does not indicate, we believe, the full amount of the increased lending to foreign countries, which we have endeavoured to allow for otherwise. The item which will perhaps excite most surprise is the increase of "other income-tax income, principally trades and pro-"fessions, and public companies." The estimated increase amounts to £469,000,000, on a total of £659,000,000 in 1865, or 71 per cent. It would have been very interesting if it had been possible to give as full details for 1865 as for 1875, and thus show how much of the increase is due to "public companies," and how much to "trades and pro-"fessions." It is obvious, at all events, that great as the increase is, and in whatever way it has occurred, one of the conspicuous facts of the income-tax returns is the rapid increase of Schedule D, and principally of this part of it, in recent years. We can well believe that no such increase of income could have occurred without a corresponding or even greater increase of capital. Here, too, I believe city opinion will confirm me in the statement that something like this is

what we should have expected to find. I have often heard it remarked at least, in explanation of the scarcity of bills in Lombard Street, that the trading classes were believed as a rule to have become richer of late years than they were in proportion. They have had more capital, and so did not require to borrow. Probably enough, therefore, the increase of capital corresponding to trades and professions—that is, of stock-in-trade and tenants' fixtures mainly—has been even larger than the increase of the income itself.

Having formed this estimate as to the increase of property during the last decennial period, it may be useful to corroborate it by an examination of the results that would be yielded by different methods. The comparison seems to bring out the very great moderation of the present method. I have already referred to the calculations of the writer in the *Economist* in 1863, who also took for his basis the income-tax returns, and whose contributions to the inquiry from time to time must always be consulted by those who wish to study the subject thoroughly. Our figures are certainly much lower than his method would have furnished us. He states (see *Economist*, 12th December, 1863):—"Considering, however, the large "omissions and under-statements of all income-tax statistics, "and also remembering that the figures before us wholly "omit the sub-tax incomes, we have, after taking some "trouble, arrived at the conclusion that if we multiply by "twenty, or, what is the same thing, capitalise at twenty "years' purchase, or at the rate of 5 per cent. per annum, "the total average annual increase shown in Table A" (a table summarising the various schedules of the income-tax), "we shall not overstate, but the contrary, the annual "savings of the United Kingdom during the five years in "review." Applying the same method now, we find that

the increase in all the schedules of the income-tax between 1865 and 1875, is from £396,000,000 to £571,000,000, or £175,000,000 in the ten years, that is £17,500,000 per annum. Capitalising this at twenty years' purchase, we get a total increase of £3,500,000,000 in the ten years, or £350,000,000 per annum, which is certainly a much larger figure than has been arrived at by the method used to-night. There is no doubt that since the period to which the *Economist* referred, viz., 1855-60, a good deal has been done to improve the income-tax valuations. Even before 1865, as appears from the report of that year, a good deal had been done to stop the notorious leakages. But making all the new allowances we should make for changed circumstances, the method of 1863 must have brought out considerably higher figures. I am inclined to believe that the estimate to-night errs, if anything, on the side of moderation, and perhaps this confirmation I have brought may convince those who may have been startled at first by the great magnitude of the figures with which we are dealing, that these figures are really not excessive, but moderate.

There is yet a different way of estimating the accumulations of the country, viz., from the Legacy Duty Returns. Mr. Porter, in his "Progress of the Nation," makes especial use of these figures. He prints a long table (pp. 492—93, edition 1851) showing the amount of property which had been subjected to legacy duty in Great Britain in each year since the commencement down to 1848. This table I have reprinted and continued in the Appendix,* both as regards Great Britain and the United Kingdom, with the exception of ten years between 1849 and 1857 inclusive, in which it appears the Inland Revenue Department has not published the data it has since supplied. With these data Mr. Porter

* See note on p. 164.

estimated that in 1841 the personal property in the country might be reckoned at £2,000,000,000, and in 1845 at £2,200,000,000; and comparing these sums with the corresponding amounts of property passing at death in the years mentioned, viz., £41,000,000 and £44,000,000, it would appear that he reckoned the personal property in the country, as from forty-five to fifty times the amount annually subject to legacy duty. Multiplying by forty-five only the annual average of two years, 1865-66 and 1875-76, we should arrive at the following sums as the amount of personal property at these dates, and the increase in the interval:—

*Capital Estimates in* 1865 *and* 1875 *deduced from the Property subject to Legacy Duty.*

(000's omitted.)

| | Average Property subject to Duty. | Calculated Total Amount of Personal Property. |
|---|---|---|
| | £ | £ |
| 1875 ... ... ... ... ... ... | 104,686, | 4,710,870, |
| 1865 ... ... ... ... ... .. | 73,216, | 3,294,720, |
| Increase ... ... ... ... | 31.470, | 1.416,150, |

In other words, in personal property alone there was an increase of £.42,000,000 per annum, according to this method, between 1865 and 1875. But this increase would not include any property subject to succession duty, the increase in which, adopting a similar method of calculation, and allowing for the difference that only the life interest of the succession is subject to duty, would be as follows:—

*Capital Estimates in* 1865 *and* 1875 *deduced from the Property subject to Succession Duty.*

| (000's omitted.) | Calculated Total Amount of Real Property. |
|---|---|
| 1875 ... ... ... ... ... ... ... ... | £3,150,720, |
| 1865 ... ... ... ... ... ... ... ... | 2,213,550, |
| Increase ... ... ... ... ... | 937,170, |

Adding this last sum to the above figure for personal property, we get an estimated total accumulation between 1865 and 1875 of £235,000,000 per annum, which corresponds very closely, it will be observed, with the total arrived at by the method used to-night.

Whatever may be thought, therefore, of the estimates which have been made, they are fortified in some degree by the authority of former inquirers. Large as the totals appear at first sight, every one who looks into the subject is satisfied that very large figures must be dealt with. If necessary, we might derive additional confirmation from a comparison of the increase of railway traffic, increase of the tonnage of shipping entered and cleared, increase of iron and coal production, increase of imports of raw material for manufactures, increase of consumption and revenue, and other data, all showing an enormous progress, which implies, when rightly inquired into, a corresponding increase of property. But the facts, though interesting, might lead us away from the main point, which need not be further illustrated.

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## *COMPARATIVE GROWTH IN FORMER PERIODS.*

The question will be asked—How does the increase in recent years compare with the increase in former periods? The reply must be that whether we take the returns of the income-tax, or of the legacy duty, or the estimates of property deduced from them, the increase of late years has been much more rapid than at any previous period of the century. The total assessment to the income-tax in Great Britain appears to have been about £140,000,000 at the close of our great wars at the beginning of the century. It is stated to be £130,000,000 for 1813 in the accompanying

table in the Appendix,* and Mr. Dudley Baxter gives the figure of £146,000,000 for 1814-15. Few good data unfortunately have been preserved for that period, and there is an additional difficulty in comparing with later times in the differences in the minimum subject to duty. But assuming £140,000,000, we find that this compares with a total of £251,000,000 in 1843, when we have again got income-tax data—the increase in the interval of thirty years being £111,000,000, or about 80 per cent. In other words, the annual increase in this long period was rather less than £4,000,000, and about $2\frac{2}{3}$ per cent. per annum. Between 1843 and 1853 the increase was from £251,000,000 to £262,000,000, or £11,000,000 in ten years, that is little more than £1,000,000 per annum, which is even a lower rate of increase than between 1813 and 1843. In the next decade, which we take for the United Kingdom between 1855 and 1865, Ireland having been subjected to the income-tax in 1853, the increase is from £308,000,000 to £395,000,000, or £87,000,000, and about 28 per cent. in the ten years. This shows a very different state of things from what had existed in the first half of the century; but great as the increase is, it is still less than what we have been dealing with between 1865 and 1875, in which period, as we have seen, the income assessed to income-tax has increased £176,000,000, or 44 per cent.

If we look at the returns of the legacy duty we arrive at the same conclusion of a very slow progress in the first half of the century and afterwards a progress at a rapid and accelerating rate. Mr. Porter tells us that in the early years of the century the returns are uncertain, but taking the average of two years at the end of each date since 1820, we get the following comparison :—

* See note on p. 164.

| | Property subject to Legacy Duty. |
|---|---|
| 1820 ... ... ... ... ... ... ... | £30 328 000 |
| 1830 ... ... ... ... ... ... ... | 40,443,000 |
| 1840 ... ... .... ... ... ... ... | 41,247,000 |
| 1848 ... ... ... ... ... ... ... | 44,181,000 |
| 1860 ... ... ... .. ... ... ... | 59,701,000 |

Thus the increase between 1820 and 1840 was £11,000,000, or about 36 per cent., that is, about £550,000, or rather less than 2 per cent. per annum. The increase between 1840 and 1848 was only about £2,700,000, showing a still slower rate of increase than between 1820 and 1840, corresponding to the indication of the income-tax returns between 1843 and 1853. But the increase between 1848 and 1860 is £15,200,000, or over £1,200,000 per annum, and at the rate of 34 per cent. in the twelve years, or 3 per cent. per annum. Since 1860, as we have seen, the increase in the decade we have dealt with in the United Kingdom has been at the rate of over 43 per cent. Thus there is a great start forward just after 1850, both in the income-tax returns and amount of property subject to legacy duty. We have no data for the succession duty in the early part of the century, as it was only imposed in 1853; but since 1859, when we begin to have data, it has progressed with great rapidity, and with greater rapidity in the later than in the earlier years.

It may be interesting to exhibit these facts still more directly for our present purpose, by comparing Mr. Porter's estimates of "personal property" at different dates in the century with those which can now be made. He gives the following table for Great Britain at p. 600 of his "Progress of the Nation:"—

| Years. | (000,000's omitted.) | Personal Property. |
|---|---|---|
| 1814 | ... ... ... ... ... ... ... ... ... | £1,200, |
| 1819 | ... ... ... ... ... ... ... ... ... | 1,300, |
| 1824 | ... ... ... ... ... ... ... ... ... | 1,500, |
| 1829 | ... ... ... ... ... ... ... ... ... | 1,700, |
| 1834 | ... ... ... ... ... ... ... ... ... | 1,800, |
| 1841 | ... ... ... ... ... ... ... ... ... | 2,000, |
| 1845 | ... ... ... ... ... ... ... ... ... | 2,200, |

The highest sum reached is thus £2,200,000,000, whereas the total for 1875-76, as we have seen, on the same method of valuation, is nearly £5,000,000,000, of which nearly £1,500,000,000 was the increase between 1865 and 1875 alone. In other words, the increase in the last decade exceeded the whole personal property of the country in 1814, and was three-fourths of the amount of that property, even as late as 1841. So great has been the change in the material condition of the country in recent years.

The totals would not be greatly modified by the consideration of the important question in such matters, that of a change in the level of prices at different dates. It is possible—I should almost say probable—that part of the slow increase between 1815 or 1820 and 1840, and even to as late a date as 1850, was due to a gradual appreciation of the standard of value. Part of the great increase up to 1860 may also be ascribed to a rise in the level of prices consequent on the Californian and Australian gold discoveries, which seem to have reached their maximum effect in the first decade. But there can be no such explanation of the improvement since 1865, which has been coincident with events in the money market, significant rather of an appreciation than a depreciation of the standard. There is nothing, therefore, to qualify our sense of the extraordinary accumulation of property in recent years, and which we can only ascribe to the accumulated effects of mechanical and chemical discoveries, so that year by year the industrial machine is more and more productive in proportion to the labourers employed.

*COMPARISON WITH OTHER COUNTRIES.*

It would more than exhaust the limits of a single paper to go into the question of a comparison of our national position, as regards capital, with that of any other country. But such a comparison would be most instructive. In France, for instance, it is known from the estimates of the Ministry of Finance, that real property has increased immensely during the present century, while manufacturing industry has also extended. So with Germany and the United States. The latter country, as I have stated, possesses the data of regular valuations at every census, and the gross figures thus arrived at since 1791 are as follows:—

*Statement showing the Population and Wealth of the United States by Decades, from* 1790 *to* 1860; *Decennial Percentage Increase of Population; Decennial Percentage Increase of National Wealth; and Average Property to each Person.*

| Year. | Population. | Decennial Percentage Increase of Wealth. | Decennial Percentage Increase of Population. | Decennial Percentage Increase of Wealth. | Average Property to each Person. |
|---|---|---|---|---|---|
| | | $ | Per cnt. | Per cnt. | $ |
| 1790 | 3,929,827 | 750,000,000 (estimated) | — | — | 187·00 |
| 1800 | 5,305,937 | 1,072,000,000 (estimated) | 35·02 | 43·0 | 202·13 |
| 1810 | 7,239,814 | 1,500,000,000 (estimated) | 36·43 | 39·0 | 207·20 |
| 1820 | 9,638,191 | 1,882,000,000 (estimated) | 33·13 | 25·4 | 195 00 |
| 1830 | 12,866,020 | 2,653,000,000 (estimated) | 33·49 | 41·0 | 206·00 |
| 1840 | 17,069,453 | 3,764,000,000 (official) | 32·67 | 41·7 | 220·00 |
| 1850 | 23,191,876 | 7,135,780,000 (official) | 35·87 | 89·6 | 307·67 |
| 1860 | 31,500,000 | 16,159,000,000 (official) | 35·59 | 126·42 | 510·00 |
| *1870* | *38,558,000* | *30,069,000,000* (official) | *22·00* | *86·13* | *776·96** |

* But allowance ought to be made here for the depreciation of the dollar between 1860 and 1870.

Here again, as with ourselves, the increase has been much smaller between the beginning of the century and 1840, than it has been since, and it is especially noticeable that what increase of property there was in the earlier period only corresponded to the increase of population. The increase between 1860 and 1870 is at a less rate than in the previous decade, contrary to our experience in this country, but the difference is no doubt mainly due to the civil war in the United States. The contrast would have been more striking but for the depreciation of currency between 1860 and 1870. The total United States' property in 1870, it will be observed, was a good deal less than our own total at the present time, £6,000,000,000 sterling, against £8,500,000,000 sterling, while the amount per head, owing to the larger population, must be much smaller. But there would be a great increase in the United States between 1870 and 1875, and in any case the total is a very large one, and is so far confirmatory of the large figures of our own estimates.

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## *CONCLUDING OBSERVATIONS.*

What is the bearing of the facts brought out on what was stated at the outset as the main object of such inquiry? —that is, the degree of improvement (if any) in the material welfare of the community in consequence of these accumulations of capital, and the addition to the margin of taxation. It is evident, from the mere statement of the percentages of increase, that the improvement in both respects must be great. Since 1855 at least, the increase of property must have been 30 per cent. in the first decade, and during the second decade the increase must have been 44 per cent., so that the addition to the capital of

the community in that time has been immensely greater in proportion than the increase in its numbers. The increase of population has been about 1 per cent. per annum; but property has increased 3 to 4 per cent. and upwards. Whether the property so increased is productive or unproductive, the resources of the community as a whole must have been greatly enlarged. They have more to enjoy, even if the means of increasing production have not increased proportionately with other property. But that reproductive capital has increased quite in proportion, if not more in proportion, is, however, very obvious. The railways, mines, ironworks, and stock-in-trade of trades and professions are precisely those descriptions of property, with only slight exceptions, in which there has been the largest proportionate increase of property. As regards the question of the margin of taxation, the figures are absolutely astounding. The apparent increase of capital between 1865 and 1875 alone is £2,400,000,000 sterling—that is, about three times the amount of the national debt. That is to say, the community has acquired in ten years three times the amount of its debt. It could pay the debt three times over, and still be as rich as at the beginning of the decade. Allowing that to keep things in equilibrium there ought to be an increase of capital *pari passu* with the increase of population, the increase of capital in the ten years (1865-75) merely to keep the community as rich as it was, would only have been a little over £600,000,000. Deducting this from the £2,400,000,000 of actual increase, we have still a sum of £1,800,000,000, or two and a half times the national debt, which the nation could afford to pay, and still be as rich individually as it was ten years ago.

The following figures will, perhaps, bring out the comparison still more clearly:—

| | Amount of Property. (In millions.) | Amount per Head of Population. |
|---|---|---|
| | £ | £ |
| 1875 ... ... .. ... ... ... | 8,500, | 260 |
| 1865 ... ... ... ... ... ... | 6,100, | 204 |
| Increase ... ... | 2,400, = 39½ per cent. | 56 = 27 per cent. |

Allowing for the increase of population, there is still an increase of over one-fourth, or 27 per cent., in the capital of the community in the decade. The nation might lose a fourth of its property, and still be as rich and prosperous as it was ten years before. Thus, whether we compare the increase of property per head, or the increase in relation to the national debt, the facts are equally striking.

Incidentally the figures as to income we have been using as the basis of these calculations about property, afford additional evidence as to this increase of the margin of taxation. The capital yielding income by Table A, 1875, is £484,586,000; by Table B, 1865, it is £322,045,000; showing an increase of £162,541,000. Deducting 10 per cent. for the increase of population, there still remains an excess increase of income from capital beyond the increase of population, amounting to £130,000,000. This means that taxation to an immense amount could be imposed, and yet the share taken by the Government of the earnings of the community from capital alone would still leave the community per head as much as it possessed in 1865. If there has been anything like a similar increase in the earnings of the community in wages and salaries, the real margin of taxation must have increased very much more. It is no doubt quite true that the Chancellor of the Exchequer could not deal with the matter in this arith-

metical manner. The practical margin of taxation for him to deal with must be very much less. The increase of wealth and wages has brought an increase of the scale of living, which would make a diminution of the profit of the community from capital to the level of ten years ago be greatly resented. A tax just imposed is also by many degrees more burdensome and injurious to industry than one which has long been in existence. But the magnitude of the arithmetical increase of the margin proves that the increase which could be practically dealt with as a resource in time of need must be very large.

If we carry the comparison a little farther back, say for half a century, as some of the figures we have used would suggest, we cannot but be impressed with the marvellous change which has come over the country. We emerged from the great wars at the beginning of the century with a debt of £900,000,000 sterling, which was practically a burden upon the people of Great Britain, amounting to between a third and a-half of their capital. Mr. Porter, as we have seen, estimates the personal property at that time at £1,200,000,000, and the real property, the income from Schedule A being under £40,000,000, would be little over £1,000,000,000 more. In other words there was a debt of £900,000,000, against an estate of say £2,200,000,000. Reckoning per head of the population, the debt was about £70, and the property about £170. Now the property of the United Kingdom is £8,500,000,000, or £251 per head, and the debt has sunk to about a tenth part of the latter sum, or £25 per head. According to this reckoning also, the income from capital in 1815 was probably not more than £90,000,000, on which the charge of the debt was about one-third; now the income from capital is £445,000,000, on which the interest charge of the debt,

amounting to £21,000,000, is only one twenty-second part. Apart from any proportionate increase of the earnings of the people per head, such great changes have passed over the resources and burdens of the people within a period so short that the burden itself is still not unfrequently talked of, by a kind of tradition, in the language of the time when it was really crushing. Had we a national debt corresponding to what existed fifty years ago, it would be over £3,000,000,000, and not under £800,000,000; and the interest charge would be above £100,000,000, instead of £21,000,000 a-year.

Before I conclude, I may notice one or two points on which observation may have been expected. One is the distribution of this great increase of wealth. In one respect, as regards the three divisions of the United Kingdom, it has perhaps been unnecessary to do so, while it would be difficult to find sufficient details, owing to the large amounts of income which are earned in one part of the country and which pay income-tax in another. The great increase both in amount and per head of population is undoubtedly in England, although the income-tax returns show clearly enough that both Ireland and Scotland now progress very rapidly. In another aspect, viz., as to whether capital is being more diffused, or is accumulating in fewer hands, I am afraid the data are not sufficiently good for any sure conclusions. There are certain means for comparing the number of assessments under Schedule D, at different amounts of income, which would appear to show that the number of large incomes is increasing more quickly than the increase of population or the increase of wealth. But the fact of the rich class becoming a little more numerous, would not prove that as a whole the number

of people possessed of moderate capital and the average amount they possessed are increasing or diminishing, while the increasing number of company assessments under Schedule D, makes the number of assessments altogether useless for comparison, as we have no information whatever respecting the number of individual shareholders in the different companies, the average amount of each individual interest, and the interests of the holders in Schedules A, B, and C. For these reasons mainly, and also partly for want of time, I have not inquired into this part of the subject; the problem could only be attacked in a most indirect manner.

Another question which has been raised of late, is whether the nation is *now* spending its capital. The figures to-night may at least be taken to prove, I think, that if the nation has begun to spend its capital, instead of saving capital, the process is a very new one. So far as our researches carry us, the fact we have to deal with is, that the rate of saving has been far greater of late than at any previous period during the present century; that the saving all through has been at an increasing rate. The figures would also show that the only fact alleged in proof that we are living on our capital is insufficient to make out the case. The allegation is that the excess of imports is now so great as to show that we are calling in our capital from abroad. But apart from the incidental evidence which has been before us to-night, as to the great amount of lending in former years, which entitles us to the receipt in each year of an enormous income from foreign countries, so that the excess of imports would need to be much larger than it is to prove any material calling in of capital from abroad; it must also be apparent that if the nation is calling in some fraction of its foreign investment, it is not therefore stopping

its savings or diminishing its capital. The foreign investments, though they were very large in the years before 1875, were by no means the chief part of the national accumulations. Our main savings were at home. Before the nation can be said to be living on its capital, it must be shown that not only is capital being called in from abroad, but that more is so called in than what is being simultaneously invested at home. I have not seen this point considered by any of those who have made the suggestion that the nation is living on its capital.

And this brings me to the next question, on which perhaps some observation may have been expected, viz., whether in point of fact the nation is saving at home in years like the present. In what sort of years are the accumulations, such as those we have been dealing with between 1865 and 1875, the greatest, and in what years are they at a minimum or suspended, or is the process nearly uniform? I am afraid it is impossible to answer this question in anything like a complete manner. The assessments to Schedule A of the income-tax have not hitherto been made annually, but at intervals of years. We cannot tell, therefore, from these data what the increase is in a particular year. The assessments of trade profits under Schedule D again may be made on the average of three years' profits, which throws out all possible comparison of annual increases. But we have good reason to believe that in no year is the accumulation absolutely at an end; and that in many directions it is even more active in dull years than it is at other times. We know, for instance, that the capital outlay on railways is incessant; that during the last two or three years of depression, and even now, the nation is saving in railways very nearly as much as the annual income of the capital invested in them. In agriculture,

again, there is a constant annual reclamation of land in progress, besides an incessant outlay on the older cultivated area. The house-building trades again are as active at the present time, and have been for the last year or two as busy, as for many years previous, showing the absence of any stoppage to accumulation in this direction. We may anticipate from what has happened before, that the enormous increase in mines and ironworks, which was one of the special features of the accumulation between 1865 and 1875, is checked; that the next income-tax returns will not improbably exhibit a falling off on these heads.* But in general the building of houses, railway construction, the extension of factories and warehouses, and the increase of machinery, goes on in dull as well as good times. We all know how Lancashire went on adding to its cotton spinning and weaving power even during the cotton famine, and a similar extension of manufacturing power, we may be sure, is going on at the present time. So far as one can judge, the only direction in addition to that of mines and ironworks in which saving is now checked, as compared with the period of which we have been treating, is in foreign investment. From the nature of the case, every other species of accumulation is in progress as before. The truth is, that owing to the division of labour, there must be a vast disorganisation of industry, not a mere temporary falling off from a former inflation, before accumulation can be wholly checked. A certain portion of the community is told off, as it were, to create the accumulations, and if the accumulations were not made, we should see in the building trades, in railway construction, in shipbuilding, and numerous

* The twentieth report of the Inland Revenue, which has been published since this paper was read at the Statistical Society, exhibits, as here anticipated, a falling off on these heads.

other directions, a widespread stoppage of works, and masses of unemployed labourers, far exceeding anything witnessed even in those terrible times of depression which were frequent before the free trade period, when industry was partially disorganised, and pauperism assumed most threatening dimensions. In the absence of the effects which would follow, we must assume that the cause is not present, that there is no stoppage of accumulation; but that accumulation, on the contrary, goes on at present in most directions at an average annual rate, or at a rate greater than the average.

It is a different question altogether whether there is any ground for anticipating a permanent change in the extent of our accumulations at an early date. What appears to me most striking is the apparent indestructibility of most of our capital. The drainage and other improvements of land, the roads, railways and canals, the houses, the improvements of towns, the machinery and plant set up in every direction, are all forms of fixed capital, which are there to be used, if the willingness to work and enjoy all this vast estate only exists. Unless a species of paralysis seizes our workmen and capitalists, I do not see what hindrances there are to this vast industrial machine being used, whether to make for ourselves, or to make wherewithal to buy from other countries the surplus they may have to exchange with us. A great deal is said at the present moment which is substantially to the effect that workmen and capitalists are paralysed, but looking at the matter scientifically, and from a point outside as it were, the balance of probability must be held to be that the higgling of the market, as has always happened before, will result in a working compromise, and that industry will be resumed, and go on, after much individual losses, but without, in the aggregate, any loss or

destruction of capital. It is said again, that our coal and iron will soon be exhausted, and that our whole position is based upon cheap coal and iron; but, in reply, we may observe that in the above valuation of our capital the value of mines and ironworks has been reckoned at only a few years' purchase; a few years' industry would replace to us the capital value, and all our other capital—our improved soil, our dwelling houses, our machinery, our roads, and much more—would remain. Looking at our capital as a whole, I think it is a strong thing to say that because many years hence we shall not possess as a nation a certain particular form of capital, therefore the other forms of capital will not remain to be used and enjoyed. Against all considerations of this nature, we may perhaps set the continual progress in invention which is being made, and which seems to benefit most the nations with accumulated capital. If the steam engine is improved, so that two pounds of coal can do what three pounds did before, then it is the nation which has most steam machinery which is clearly the greatest gainer. So with other inventions. It will be the fault of the English people if their progress is not in future even more rapid than it has been in the past.

# VIII.

## NOTES ON THE DEPRECIATION OF SILVER.*

I PROPOSE to say very little as to the causes of the depreciation of silver. There is now a very general agreement that these causes are the demonetisation of silver by Germany, the restriction of silver coinage by the Latin Convention, the increased supply from the American mines, and the diminished absorbing power of India, whether temporary or permanent, through the increase of the indebtedness of India to England. The combination of these causes, it is generally agreed, has brought about the recent fall in silver, although opinions may differ greatly as to the extent to which each cause has influenced the result. The only question on this head which it may be necessary to discuss for a moment appears to be the extent of the depreciation. Has it reached its probable limits for the present or for a considerable period? Is a recovery or a still further decline the more probable contingency? Are the causes which have brought about the fall adequate to produce a further depreciation or not? In reply I propose to assume for the purposes of this paper that a speedy further depreciation, resembling the late fall from about 58d. to the present price of 52d. per oz., is not to be counted upon. It is the nature of such changes of prices to happen suddenly. When attention is aroused to great causes of

* A paper read at the Social Science Congress, at Liverpool, October, 1876.

change in operation, and a fall or rise has begun, the market disposition is to discount the entire change at once, and even by going beyond the mark produce a considerable reaction, such as appears to have occurred in silver in its recovery from 47d. to the present point. That no further catastrophe is impending is also probable from the fact that no further demonetisations of silver comparable in importance with those of Germany and the Latin Convention are immediately threatened. The principle expounded by Mr. Newmarch in the fifth and sixth volumes of Tooke and Newmarch's "History of Prices," when dealing with the Australian gold discoveries, accordingly comes into play. The fall causes a deficiency in existing coinages of silver for the work they have to perform. Say they amount in the aggregate to £300,000,000, then a fall of 10 per cent. in the value of silver reduces them to £270,000,000; and as £300,000,000 is required, there will be a deficiency of £30,000,000 to be supplied. This is in addition to the usual annual supply which the general increase of population and wealth renders necessary. Without making any elaborate calculation of what is the amount of the existing silver coinages throughout the world, it is certain that a very considerable deficiency will now have to be made good, and the demand thus caused will arrest for a time at least, and in the absence of any more demonetisations, the further depreciation of silver. It must also be kept in mind, what Mr. Newmarch points out, that the bulk to be operated upon increases with each step in the depreciation, and the increased supply is the more easily absorbed.

What then are the effects of this great depreciation? The most important, I believe, are summed up in this—that in countries having a silver standard the usual effects of a depreciation of the standard will be produced. In other

words, these countries will sooner or later experience a general rise of prices, probably with the usual accompaniment of speculation and stimulated trade. The weight of the national debts of such countries, so far as contracted in silver, will also be diminished. On the other side creditors will have less to receive, though debtors have less to pay than was contracted for, and thus many individuals will lose; the wages-receiving classes in such countries will also suffer at first by a real fall in wages; and the annuitant classes generally will be straitened. These have undoubtedly been the effects of the Australian gold discoveries and the consequent depreciation in gold which then occurred, although the immediate fall in wages and other evils have been neutralised or lost sight of in an advance of wages due to other causes, and in a vast industrial progress which was no doubt partly stimulated at one time by the gold discoveries themselves. It is quite possible that there is as yet hardly any trace of these effects in India and other silver countries, but the experience of such changes in past times is sufficient to prove that the effects will follow.

Such will be the effect of the depreciation on the countries which use silver as money. As regards the use of silver for other purposes than money, the depreciation means the supply of an article valued by mankind at a cheaper price. I need hardly say that such a lowering of price is in itself an undoubted advantage to mankind. The owners of existing stocks of silver will no doubt be relatively poorer, but this is the natural effect of any cheapening of commodities, and is not considered an evil.

And if these were the only effects of the depreciation of silver to be considered it would not be possible to affirm that on the whole the depreciation of silver is an evil. No doubt many individuals will suffer, but many also will gain; and

it cannot be affirmed, I think, that there is any balance of evil for the community. The cheapening of the commodity as a commodity is an advantage, and the depreciation of the currency is of mixed consequences, some of them undoubtedly good. It may be said that all fluctuations of the standard of value are presumably of bad effect, but I doubt if economic science is sufficiently advanced to enable us to say so. In point of fact all standards do change in value from period to period. Gold itself has undergone extensive changes during the present century, and, as is now well known—Mr. Jevons's demonstrations will be familiar to many here—prices are subject to a fluctuation of 10 or 25 per cent. in every credit cycle from the mere change in the state of credit alone. When credit is good all prices rise, that is, the standard depreciates in value; and the present fluctuation in silver does not go beyond the limits of an ordinary change caused by the varying state of credit. The truth seems to be that it is very important for nations to have a standard of value, even though it fluctuates from period to period; and a fluctuation of 10 per cent. and upwards is of so ordinary occurrence that when one occurs from an extraordinary cause, we cannot treat it as itself extraordinary or presumably as productive of extraordinary evil.

The question then remains whether there is any peculiarity in the depreciation of silver, different from any other depreciation or change in a standard of value, to account for the loud outcry it occasions and the call for heroic remedies. The answer here is also obvious—that there happens to be a large class, including to some extent the Governments of silver-using countries, who are losers by the change. They are among the creditors who have less to receive, while the loss is made obvious to them, because they

have to make payments in gold, or have otherwise to convert the silver they receive into gold, and are thus made to ascertain that the silver they receive is less effectual as compared with gold than it was. If there were no exchange operations the outcry would perhaps be less, but as matters stand it is quite intelligible that an immediate apparent loss of rather more than 10 per cent. should be greatly resented. A classification may be made of the complaints. They are not made by the great masses of the silver countries—say by the masses of Russia, Austria, Hungary, or India, who are indeed as yet hardly aware of the depreciation—but chiefly, I think, by two or three classes only. 1st. The Civil Service of India, which is paid in rupees, but has remittances to make to England in gold. Generally all European *employés* in India dependent on fixed salaries are in the same case, though salaries in private employment are, of course, not so fixed as in Government service, and the evil in their case may be more evanescent. 2nd. The Indian Government, as having been a large borrower in gold, and being largely indebted in gold for pensions and otherwise, is a heavy loser by the exchange, and the loss for the moment destroys the narrow margin which Indian financiers have to go upon. I do not hear of any other great Government which is in precisely the same difficulty, except perhaps Russia, which has large sums in gold to pay annually, though its foreign debt is not so large in proportion as that of India, and it has no foreign pensions to meet, as India has. Austria and Hungary have also borrowed a little in gold, but not so much in proportion. In as far as they have borrowed they have all a palpable loss by exchange to meet, and minor countries using silver, and which have borrowed in gold, are doubtless in the same predicament. Lastly, there are the traders with silver

countries, who either make temporary or permanent investments in those countries, and who have thus remittances to make home. The losses thus caused have undoubtedly been great. Traders have been exposed to heavy loss on many transactions, though if silver remains steady this cause of loss should cease to affect them. Trade is also hindered by the greater difficulty of making exchanges between gold and silver, where there is no longer a fixed relation between the two metals, this hindrance being of the same nature as that experienced in the trade with countries which have an inconvertible paper money. Bankers and insurance companies, again, who have money out in the silver countries, have been forced to endure a great depreciation in their silver assets, which must be recognised when the amounts are converted into gold. It is in this way that the outcry about the silver depreciation has arisen. The Governments of certain silver countries, principally India, happen to have unusually large engagements in gold to meet; the Civil Service of one Government, that of India, is also specially concerned; and there is a large class in certain gold countries, principally England, which has investments in the silver countries, and has thus to face a great loss.

The losses are undoubtedly great, but I am inclined to think there is also a great deal of exaggeration about them. Passing over the loss of the civil servants of India, which is most serious and unequivocal, I should be inclined to say that as regards traders there is either no loss which does not come within the ordinary chances of trade or which has not at any rate been written off by this time, while the increased difficulty of exchange with silver countries is of a kind which has often been encountered; and as regards Governments that their real sources of revenue are not affected—that if silver is depreciated they must soon be able to raise

an increased nominal revenue in silver, and that in this way their temporary deficits will be adjusted. As regards trade, then, the loss by exchange, apart from the excessive fluctuations, amounts to about 10 per cent. in the current year, and this, I maintain, is no more than an ordinary trade fluctuation, against which traders ought to provide. They go into business expecting to meet large gains and losses, and such a fluctuation is one of the chances. Probably the bankers who suffer will have found the fluctuation more out of the way of what they usually calculate on; but the lesson after all only brings home to them their liability to a trade risk when they really engage in trade. Startled as they are by the fluctuation in silver, they ought to remember that such fluctuations are natural in every standard, that they have occurred before both in gold and silver, and that their reliance on a permanent equilibrium between the two was really irrational and the fruit of long habit during a period in which a comparative equilibrium has been maintained by the artificial regulations of the double-currency countries, assisted by a singular combination of events. Now that they are undeceived, bankers and others residing in gold-using countries, and proposing to invest in silver-using countries, will know that they have an additional risk to provide for. Investment may be checked a little in consequence, but that should be the sum-total of the evil to the community of peoples generally, from the losses which bankers and others have sustained. As to the increased difficulty of exchange, which is a permanent hindrance to trade, the circumstance that the difficulty is of a familiar kind should prevent us exaggerating it. When we have seen what fluctuations the exchange with the United States, for instance, has been exposed to by inconvertible paper, without the trade coming to an end, we can hardly be

afraid of similar difficulties in connection with silver, where the play of supply and demand will in time be able to adjust the price, and consequently the level of exchange. If the exchange, even with inconvertible paper money, tends to become tolerably stable, we may anticipate a like stability, as a rule, for the exchange with silver countries, as soon as the causes of the present unusual movement have ceased to operate. As regards the deficits of Governments which have to pay interest and charges on their debt in gold, or have other remittances to make in gold while they receive revenue in silver, it is quite plain that when prices within such countries have adjusted themselves to the depreciation they will, in the absence of any special difficulties, be as able as before to make their gold payments. They will have more silver to give in exchange for the same quantity of gold; but then they will be receiving more silver. As they will have a real gain at the same time on their home debt, payable in silver, it cannot be said that the temporary embarrassment occasioned while prices are being adjusted to the depreciation is so very serious a matter to them as it appears at first sight. Special difficulties in the way of the Government being able to raise an increased silver revenue are no doubt alleged in the case of India; but India is not the only case to be considered, and the presumption is that, if there are such special difficulties, they must interfere with and embarrass Indian finance in other ways, and should be grappled with accordingly.

We come then to the question of the remedies applicable to such evils as the depreciation of silver may cause. If the view I have taken is correct, the case is plainly not one for heroic remedies. The depreciation itself could hardly be considered an evil—on the contrary, it is probably a beneficent change—apart from the special losses which the Civil

Service and pensioners of silver-using countries sustain, and the temporary financial embarrassment of a country like India, which happens to owe largely in gold. There is especially no need for such a heroic remedy as that of the further demonetisation of silver. It is quite natural that the classes in gold-using countries who suffer by the depreciation of silver should advocate the adoption of a gold standard in silver countries. They assume that the rate of conversion between gold and silver would probably be fixed in such a way as to put them back where they were before the recent fall, while, if the greater use of gold should have for result an appreciation of that metal, they at least would not be losers. But, as far as the people of the silver-using countries are concerned, what good are they to get by such a change, or what motive have they for it? The silver currency is presumably good enough for them, for that is what they have, and there must be many countries where silver is even more suitable than gold as a medium of exchange and standard of value. It is certainly rather strange to suggest to them to give up the silver which they have and take gold, at the very time gold is dear to buy, and the proposed demonetisation would make it still dearer. If the silver countries were self-governing, it may perhaps be doubted whether so strange a remedy, which could only have for effect the increase of their burdens to save losses to distant creditors, would ever have been thought of.

I believe there is equally no occasion for the heroic remedy of bi-metallism, in defence of which you will shortly have an opportunity of listening to a most distinguished advocate now present.* The depreciation of silver, it is alleged, is so great an evil that the only thing to be done

* M. Cernuschi.

is to try the plan of establishing, by common consent of all civilised countries, the perpetual interchangeability of the two metals. But if the evil is not so very great after all, if the fluctuation in silver is only an ordinary affair, such as frequently occurs with every standard of value, we have certainly a reason for not trying so colossal an experiment as that which bi-metallists suggest. I confess I have great doubts what the exact result of such an experiment would be. It is assumed that the two metals would permanently be kept in circulation at the ratio of fifteen and a-half to one. But that is only an assumption, and I should rather anticipate confusion from the one metal or the other being at a premium. But the mere fact that it would be a colossal experiment is an argument against it so long as we are not compelled to adopt heroic remedies. It may be said that a system of dual currency has been successful in France and other countries, but the answer is, that although France and other countries have managed to work the system in the midst of other countries, some having silver exclusively, and others exclusively gold, the position would be entirely different when the metals would be universally interchangeable. France and such countries with a dual currency have, in fact, never had the two metals practically in use together, but have facilitated exchanges between the gold and silver countries by adopting the one or the other currency alternately. This they have done at great loss to their creditor classes, who have several times over been paid with a depreciated metal, and at great profit to the exchange dealers who have conducted the extensive operations of exchange. But, because a double currency has been practicable under these conditions, it does not follow that it would be universally practicable.

Leaving such heroic remedies alone, therefore, the only

other remedies which come within view are those applicable to the special difficulties of the pensioners or *employés* of silver countries, and the Governments of such countries which have large gold payments to make. Regarding the former the simplest way of meeting the difficulty will be the best. When the depreciation is well established a good case will have been made out for increasing the nominal salaries of those who are paid in silver. The increase will cause no real additional burden to such silver countries, because silver will have become more abundant, and a larger revenue will have been received. And as regards the financial embarrassment of such Governments through their large gold payments, there is nothing for it but the assurance which economic science certainly gives, that the embarrassment can only be temporary; that in time the nominal revenue will increase in proportion to the depreciation, and thus matters will be adjusted. It will perhaps be said that the case of India is quite peculiar; that the land tax has been settled in perpetuity or for long periods; that this is half the revenue, and that it is supremely difficult, therefore, to increase the national resources. But if this is so, as I have already hinted, is not the evil of Indian finance so deep-rooted that, quite apart from this silver difficulty, measures should be devised to enlarge and strengthen the sources of income? The answer to such a question must be in the affirmative, and the fall in silver may, therefore, do good, by forcing on Indian financiers the more earnest consideration of their financial problems.

## IX.

## * MR. GLADSTONE'S WORK IN FINANCE.

THERE is a universal agreement of opinion that Mr. Gladstone's strength is finance. Those who dispute his capacity in other respects allow that figures steady him, and his achievements in this field have been the principal boast of his admirers. Until lately, indeed, it might be said, there was little else to boast of; Mr. Gladstone's career had been otherwise mainly interesting as a psychological study, exhibiting the process by which a peculiar mind, starting with a false appreciation of the tendencies of the time, and imbued with notions of a theological cast, has gradually harmonised itself with these tendencies, and discarded theological conceptions in the domain of politics. Because, then, Mr. Gladstone is so prominent, and his repute is so largely due to success in one department of politics, an inquiry into what his work here has been, without embracing his whole career, may be more than justified. This would be the case altogether apart from his recent accession to the premiership. No doubt the past history of any premier, the predilections he has manifested, and his success, or supposed success, in a particular department, are likely to throw light on his future policy. But it is enough to know that Mr. Gladstone, as a prominent party leader, is mainly praised for his finance—has his achievements here put forward as a main reason for supporting him. This fact alone proves that the work is considered of a vitally

* Written in 1868.

important character, intimately concerned with the business of politicians in the present time. By studying Mr. Gladstone's finance we are likely to get light on some of the most important problems which our public men have to solve—unless it should prove, what we find is not the case, that great achievements in finance, of the kind so much praised, are no longer possible. It will be said, perhaps, that the subject is familiar enough—Mr. Gladstone and his financial deeds have been in all the papers these many years. But common as is the talk of Mr. Gladstone's finance, it may be doubted how far it is really known. A generation has grown up which knows not Mr. Gladstone directly, or the work that he has done—to whom his great budgets are matters of history quite as much as the Reform Bill of 1832, or the dreary politics which preceded it from 1815 downwards. There are plenty of men among us who have lived through the whole period, but the last events are almost as unknown as the first to those who were at school during the Crimean War, or have graduated since 1860, but who will henceforth have their share in the politics of the future. On this account it may be useful to resume questions and arguments which may to some be stale and commonplace, and mark out the outlines of a period from which the present has been developed. Perhaps those who are older may not wholly lose by looking broadly at the past. A deliberate retrospect may remove or modify the partial impressions of the hour—may show what was essential and permanent, what are probably, therefore, the strongest influences in the times which are beginning.

The talk is of finance, but the fact which meets us at the threshold is the secondary place of what passes by that name in the financial record of this country during recent years—that is to say, since 1842. The ordinary understanding of a

financier's duty—and usually the correct understanding—is, that he is to find ways and means for expenditure, and maintain the credit of his Government. With the expenditure itself it is not supposed he has much to do, except that having to furnish the means he is expected to criticise it closely, and reduce the bill if he can. What he must know is the way to borrow cheaply, or to raise a revenue with the minimum of resistance. The unpardonable sin is not the infliction or maintenance of bad taxes, but the failure to find the money. The history of States, as a rule, has shown Governments spending up to the limit of their means, the limit of what could be screwed out of their subjects; and books on taxation bear curious witness to the anxiety of the problem—how to find a new instrument of raising the wind. There is nothing, says Adam Smith, which Governments have been so ready to borrow of each other as a new tax. The most important financial exploits on record have likewise been those of financiers, such as the younger Pitt, in the conduct of a great war. To keep the stream of expenditure flowing, without totally exhausting the nation, and to devise a new expedient with every fresh strain on the national resources, were the tasks that had procured most renown. But the problems of recent years have been of a different order—a different exercise of ingenuity has been required. The conditions have been wholly changed. The experiment of free trade, so much recommended as it was in order to improve the revenue, had other relations as important, or more important, to the general welfare of the country. Whether the experiment was worth trying for the good of the country, and how to find the means of trying it, became the financier's questions. But the necessity of looking so much more to the general welfare of the country is not the only change. What must besides be taken into

account is the marvellous and unprecedented increase of the national wealth in the course of a very few years—an increase which apparently has not yet approached a permanent check. The aggregate income of the nation has probably been doubled within the last thirty years; the taxable income of the country must have increased in much greater proportion. To maintain in such circumstances an equilibrium between State income and expenditure became so easy a task that, if that were all, a financier might fold his hands. But the overflow of means beyond all former precedent, as soon as it began to be felt, could not but impose new duties. Among these a financier of the old school would hardly have thought of aught else but the wholesale reduction of taxation, and the improvement of the national credit by the diminution of debt, or the accumulation of a "reserve"—the steps which are suggested at the close of a great war, when the diminution of the demands on the Exchequer produces a similar abundance. But much else was to be thought of. The signal growth of wealth if it had preceded, instead of succeeding, the commencement of free-trade legislation, should itself have suggested the revisal of a scheme of taxation handed down from other times. Happening, as it did, it furnished another reason for carrying on the work begun, for making the revision complete, and thus enlarging the cause which had assisted so much in producing this very effect. All the reasons for continuing the experiment were reinforced by the initial success. Whether at the time the idea of that success was not much exaggerated is not now in question. In other circumstances commerce and industry might not have flourished as they actually did after free-trade measures; there might have been an advance to prosperity, although not the same brilliant prosperity, without any such measures at all. Still

the proofs are abundant that this new legislation had been a large part of the battle. Before 1842 the condition of the country was alarming, in a way we cannot easily imagine. Successive deficits in the revenue were but a feeble index to the complaints of suffering which arose from every quarter. The country was standing still, with a vast gulf between the rich and the poor, and political discontent assuming the most threatening forms. The visible beginning of a change was the free-trade experiment—the abolition of the burdens which those concerned at the time felt to be hindering their business. If other forces, such as railways and steam-ships, came into play, and intensified the apparent effect, it is still true that there was an effect to be intensified, and that politicians had some excuse if they ascribed, perhaps, more than its fair share of the cause to what their own hands had wrought. It could not be a question, at least, that the work should be carried on which had assisted so beneficial an end—one of the effects being the supply of more means with which to carry it on. What remained for financiers to consider was the order of the subsequent steps, and how far the process should be carried.

The change suggested another problem of equal importance—the assistance to be given by finance in ameliorating the condition of the masses of the community. The whole tendency of the time is to bring this problem directly before statesmen and Parliaments; but the new increase of wealth, by raising the masses a little, by putting them on a better vantage-ground, by opening out for them new and unexpected vistas, has perhaps been more effectual than any other single cause. The conception of a vast manufacturing community, well fed, and housed, and clothed, living in comfort—what would even have been thought affluence only a century ago—was hardly thought possible till people wit-

nessed the growth of such a community almost before their eyes. But once made a possible, almost an actual, fact, the expediency of consulting this people's welfare, of giving them more chances, of making life richer and more enjoyable for them, became much less problematical than it had seemed even to very good men. Statesmen came under new obligations, and the idea forced on financiers, almost unconsciously, was that, instead of benefiting the masses merely by undoing still further an antique legislation, they could also add to their means by reducing the taxes which pressed on them. To distribute the accumulated wealth of the country more evenly, to cause it to be shared more and more largely by the mass—especially those who are just struggling out of the borders of pauperism—are objects of paramount importance, which might be worth, if need were, the weighting of the balance of taxation in favour of the poor. Whether their condition could not yet more be improved by the appropriation of the new wealth to the development for the general interest of the "monopolies of civilisation" — whether financiers should not be prepared to find means for this sort of expenditure—is equally a question which presses. To urge this earnestly may appear to some to be devotion to a not very high aim, but not to those who know what "wealth" for the poor means. Command of the means of enjoyment is, in truth, the beginning of civilisation. The roughest navvies may gain little by the sudden possession of high wages, but the second generation of a highly-paid labouring class develops new tastes and gifts. Recent history has furnished too many illustrations of the fact to make it any longer doubtful. The increase of wealth in the possession of the mass of the community is therefore an aim of first importance. If a financier can accomplish it by reducing taxation, or by other means in his power, all his energies should be bent to the task.

What share, then, had Mr. Gladstone in the financial tasks of the period? in what direction will his future influence be bent? are the questions we have to answer. Glancing backwards, it is not difficult to see that all the problems stated have been solved, or many steps made towards solving them; and, whatever the criticism of detail, the respective merits of the financiers of the time can almost be measured by the bulk of their contributions to the work. Tried in this manner, Mr. Gladstone's contributions are confessedly the largest of the whole twenty-six years since 1842. All that is characteristic in the last sixteen is exclusively his. There have been other Chancellors of the Exchequer—Sir George Lewis, Mr. Disraeli, and Mr. Ward Hunt—but, as fortune or management would have it, they have contributed almost nothing among them to the work of the period. Mr. Disraeli's insignificant contribution in the budget of 1867 is literally almost the only thing which Mr. Gladstone cannot claim. It is obvious, too, that a very large share of the work has been got into these sixteen years. Of the four great stages into which the whole period may be divided, two at least are included in the later time. To Sir Robert Peel belongs the first step in 1842, and the second step in 1845; but the stages of 1853 and 1860 were marked with equal distinctness, and were hardly of less importance. To take the test of the amount of taxation reduced, it appears that, in the years 1842-52, the balance of remission was £7,000,000, while in 1853-66 the balance is £13,000,000. This, too, was in spite of the fact that the expenditure in the former period was only between £50,000,000 and £52,000,000; whereas in the latter period it has been between £65,000,000 and £70,000,000. The proportionate merit of Mr. Gladstone is not so great as the figures show, because all our figures are now bigger, and the taxes

reduced would not have been so productive, when they came to be reduced, but for Sir Robert Peel. They are proof, nevertheless, that a great deal was done; and when the details are looked at, the conclusion is not less unfavourable. To the first period necessarily belongs the redress of the worst evils in the old system—the abolition of export duties, of import duties on the raw material of manufacture, and of certain oppressive excise duties, such as that on glass; above all, the destruction of the corn laws, with the reduction of duties on other articles of food. Still, how incomplete the work would have been without Mr. Gladstone's contribution. There were no export duties left for him to touch, but every other feature of Sir Robert Peel's work is found in his. The abolition of the excise on soap and on paper released two home industries of the first magnitude, and were quite as important measures in that kind as the repeal of the duty on glass. Mr. Gladstone, again, first reduced yet further the customs duties on articles of food, and finally abolished every duty of that kind, with the single exception of the shilling duty on corn. Sir Robert Peel, besides, only began the total abolition of duties, his main steps being merely to make reductions. Mr. Gladstone has swept the tariff clear, leaving only certain charges on great articles of consumption, with supporting duties on a few articles besides.

This is a fair account, so far, of the difference between the two periods—without any design, it may be added, to disparage the work of the first period for the sake of eulogising Mr. Gladstone. The measures of 1842 and 1845 have the merit of novelty, which, in a matter of this kind, far outweighs every other. They broke the spell of the old system, and gave the country, as it were, life from the dead: any fresh additions to that life are hardly to be compared. Still it is also just to see how large the additions

were. Their full effect is hardly perceived, because they came in the midst of abounding prosperity; yet without them the new era would show fewer signs of an economic revolution. The occasional fits of languor would probably have been far more severe. Mr. Gladstone's share, however, appears the more important, if we consider that the later problems were almost exclusively his. They were all raised, more or less, in the earlier period. Even then the success of free trade had suggested the continuance of the work; Mr. Gladstone was only one of many on whom the experiment made a deep impression. Even then the idea of relieving the burden of taxation so as to ameliorate directly the lot of the masses by taking less out of their pockets, as well as by lightening the springs of industry, had come into view. But the main work in that period before 1853 still was the relief of industry—the continuance of the free-trade experiment through its earlier stages. Mr. Gladstone, on the contrary, had to pursue the task through all the later and less obvious stages; while, as he completed the task, the relief of the tax-paying masses came directly in his path. His work, on the whole, was one of greater complexity; and where the indications were less sure, the personal merit of success was proportionately greater. Mistake in development was more easy than at the first start, when things were so bad that you could hardly shake off anything without doing infinite good. By the necessity of the case, too, he has had rather less popular support. He has not had the popular clamour to carry him through, which made some of the steps so easy to Sir Robert Peel after the first had been taken. He has been compelled to create an artificial intelligence, an artificial agitation, to supply the place of feelings his predecessor had at command. Add only one more difference. The one lever with which

Sir Robert Peel wrought was the income-tax, to replace the revenue sacrificed until the natural process of recovery. Mr. Gladstone has devised more than one subsidiary aid, like the extension of the succession duty to real and settled property, and the increase of the spirit duties—processes which leave in his favour, as we have stated, the balance of remitted taxes, but which made a good deal easier the various steps in his progress. Of the same order of work, in a financial view, is the vigorous warfare he has waged from the beginning to the end of his career against the growth of expenditure—a warfare not required in the same degree before the Crimean time.

Little more need be said, perhaps, to show the extent of Mr. Gladstone's share in the finance of the period. But the fact that his period required so much management may need some explanation. It may not be plain at first sight that the questions were very difficult. There is a popular impression that the progressive increase in the revenue is the whole secret—when financiers have surpluses to give away, it is thought they cannot go far wrong. To remove the impression, let us watch what the history has been, how little would have turned the scale.

In 1853 it was far from certain whether the mere work of relieving industry would be carried any further. The country already was feeling itself more prosperous, and although various taxes, such as the advertisement duty, were the subject of agitation, although the general sentiment was in this direction, yet there was no such strong body of opinion as would have forced things in the direction which Mr. Gladstone selected. On the other hand, there were various powerful circumstances tending to an opposite course. Thanks to its own demerits, and perhaps also to the ingenuity with which public men, not excepting Mr.

Gladstone, had committed themselves to its condemnation, the income-tax was almost as good as doomed. The work bargained for when it was imposed had long since been performed, and the first thing desired was to be free of the burden. Proposals to renew it were unpopular; and just before, a committee which had been appointed to consider its reconstruction had been unable to agree, while collecting a mass of evidence to prove its inequalities. At the same time, all the interests which had been deprived of protection were clamorous. The agricultural interest especially was eagerly demanding the transfer of local charges to the Consolidated Fund, and would have welcomed, above all things, a reduction of the malt tax as a concession to its claims. A popular proposal talked of was a re-adjustment of the house tax, which had been substituted for the window duty, so as to make it fall on a lower class of houses. Thus it was quite possible in the circumstances of that time that, but for good guidance, these interests would have been heard above everything—that the income-tax would have been sacrificed gradually, without securing any more relief to trade (excepting the trade in malt), and that in a house duty the lower middle classes and the working classes would have had imposed on them a drawback on the reduction of the tea duty, which was the only boon suggested for their benefit. All the while, too, though this could not be foreseen, the national expenditure was destined to rise to an unwonted height, partly in a great war, partly in the military excitement which that war nursed into new life all over Europe. Had no decisive remissions been made in 1853, had not the way to do so been discovered notwithstanding every obstacle, it is altogether doubtful when they would have been made—what agitations and controversies would have been necessary to effect them when

the country, in the actual course of events, was pushing on to new conquests.

That the remissions took place—to the extent in money of more than £5,000,000—may be held in these circumstances to show that the financier who had the management of them had a true insight into the situation. The impression is more than confirmed by an examination of the budget of 1853. The budget was a surprise to the Chancellor's contemporaries; but looked at closely, it rests upon the firm discernment of two points which ought to have been as clear to every one as they were to him, but were not, in fact, so clear. The first is the great value of the work of having set trade free. In their very prosperity people had forgotten it, so that the willingness to pay the price of the income-tax had died out. Mr. Gladstone only urged that what was good in 1842 and 1845 must be good in 1853, though the sharpness of the stimulus in the earlier years no longer existed. Such a position suggested as a natural corollary the continuance of the income-tax for the sake of further remissions—the great point at which Mr. Gladstone aimed. Although expenditure had not increased in the ten years as it afterwards did, it had still increased so far that the abolition of the income-tax was not so easily manageable as it was calculated it would have been. Its reduction could only take place gradually; and it was easy to argue that as the tax must at any rate remain, they might as well keep it at a higher amount than was absolutely necessary, and associate it with further remissions. This was the vital point of the budget, and made the subsidiary points more easy to handle, though, looking at the whole as a piece of persuasion, hardly anything was unimportant. The controversy about the inequalities of the income-tax was especially placed in an entirely new light. These inequalities were to be no worse

than they had been, and as the practical difficulties in the way of its reconstruction were endless, and it was still to be only temporary and to do for the country the old work, there were good practical reasons for enduring it somewhat longer. It was, perhaps, more effective to remind people that, after all, those who were most hardly dealt with by the tax, who would have cause to grumble most, had really been direct gainers in money by the new legislation, as well as by the general improvement of the national industry. This was the Minister's justification for extending the tax to incomes under £150, by which its amount and effectiveness would be increased. The argument was special and narrow, but it reminded people in the most telling way of the nature of the new *régime*, and taught them not to calculate too nicely the price they were called on to pay. The idea of calling in new aids to help in the work—mainly, the extension of the succession duty to real and settled property—was even more exclusively Mr. Gladstone's. A like proposal had not been made since the days of Mr. Pitt. Though it has not realised what was expected at the time, it has gradually become profitable, and has yielded assistance in the task of remission which is not to be despised. It was like the discovery of a national estate, which had been appropriated to their own use by the individuals of a favoured class, and it secured to the country for all purposes a source of revenue peculiarly unobjectionable. By directing attention to new sources of income, Mr. Gladstone undoubtedly solved the problem of meeting the high expenditure of the years that were to come, without stopping the work of reform. Without such aids we should, perhaps, have been paying to this day a shilling income-tax, without the remissions which were contained in the latest budgets of the series.

The features of personal effort in the next great

stage, that of 1860-66, are perhaps more difficult to make out. The start would seem to have been made amid the loud din of party wrangling about comparatively small points—objections to proceeding in the way of free trade by means of treaties; clamour about Coventry distress; and the woes of paper-makers subjected to foreign competition, while foreign nations were allowed to maintain their export duties on rags, so denying them perfectly free access to the raw material. It may well seem, in the midst of such wrangling, that there was no real controversy, and no real difficulty—that only some minor points of procedure had to be adjusted, so that no one financier could claim any particular credit. The perplexities of 1853, it is plain, had likewise come to an end. The agricultural and other interests were less clamorous, having survived the deluge, and found themselves more prosperous than before. The inequalities of the income-tax were less talked about, either because of the circumstance so well known to economists, that taxes, the longer they continue, tend to adjust themselves; or because, being richer, people felt less the pinching of the tax. But the situation, when looked at, discloses great difficulties, which made the selection of the right path hardly a bit more easy than it had been in 1853. The danger caused by public indifference to the work of reform was now very marked. They were disposed to approve and acclaim another characteristic budget, but their hearts were not so set upon it as to compel Ministers to introduce such budgets, or make an Opposition forbearing and careful. Perhaps they thought themselves, in their prosperity, almost sure of such work. But the great danger of all, which threatened an indefinite postponement of the whole work, was undoubtedly the growth of expenditure. Between 1853 and 1860 the annual charge for the supply services had actually increased by the sum of £14,000,000—

had increased, as Mr. Gladstone explained, at the rate of 58 per cent., while the wealth of the country had only increased at the rate of 16⅔ per cent. And there was no repugnance in the public mind towards almost any expenditure: that the country was rich, and could afford what it really wanted, was the new formula coming into vogue.

With such a condition of things, then, in 1860, the budgets of finance ministers were not likely, as a matter of course, to be progressive. The temptation must have been strong, with Palmerston in power, to let things slide. People would have been quite satisfied with a little effort to reduce the income-tax and the war duties on tea and sugar, which had not yet been repealed, and there end. Here, then, was Mr. Gladstone's personal mark upon the time. He would not have it that the work should stop; but in spite of high expenditure, and the indifference of popular feeling, proposed changes of the very greatest magnitude—in fact, proposed almost at once to finish the work of the period. To carry out the French Treaty was itself a large work, involving the sacrifice of a considerable revenue by the lowering of the wine duties, but to add on to it the repeal of the paper duty, and of all duties on articles on food, except the shilling duty on corn, and the clearing away from the tariff of all the small burdens, was to show a new sense of the importance of the task. Mr. Gladstone, in short, was not satisfied with a small effort, but desired a remission which people would perceive, which would tell on commerce and industry. That he was right in his aim will surely not be doubted after the event; nor should it be doubted that by thus presenting the question, by showing the possibility of a great achievement, he created a new interest in the work which would not have been felt in piecemeal reductions. Good judges say that the French Treaty was enough; that

the inauguration of free trade on the Continent was sufficient to mark a single great budget; and there was probably ample work, in passing it, in explaining how the treaty might yet be a free-trade one, although in form more suited to the days of protection—a topic, by the way, with which Mr. Gladstone had long before been familiarised when Sir Robert Peel's Government was vainly negotiating a very similar treaty. But, judging by the event, it is difficult not to feel that the larger the work, the more beneficial it was likely to be in proportion, and that the excitement of interest required the very strongest stimulants. Perhaps in no other way could the income-tax have been maintained at a high figure, or a vantage-ground obtained for fighting expenditure, which last is perhaps the cardinal feature of Mr. Gladstone's latest policy. As it happened, his failure in this warfare made it very convenient, financially, that his repeal of the paper duty was checked for a year by the action of the House of Lords; but any further failure would have been disastrous, and the following series of budgets would have been utterly impossible. The figures have lately been discussed *ad nauseam*, but it is not possible to go outside the fact, that but for the reduction of expenditure from £69,502,000 in 1860, and £72,792,000 in 1861, to £65,914,000 in 1866, the whole process of that time—the gradual diminution of the income-tax and tea duties, and smaller reliefs to industry, the clearing off of the remnants of the great work—must have come to an end. In the latter years, it seems plain, Mr. Gladstone was preparing another great *coup*: the income-tax was left at the manageable rate of 4d. in the pound, while the revenue for the year 1866-67 showed a surplus of about £2,700,000 on an expenditure of £66,780,000. Had the same management continued, the year 1867 might well have been the era of

another great budget, in which the alternative would have been, more distinctly than at any period since 1842, the laying of the income-tax on the shelf—but this time a light income-tax—or the continuance, if there was room for it, of the work of invigorating the industry of the country, and ameliorating the lot of its masses. This was the fruit of keeping expenditure down, whatever damage, in the shape of insecurity or inefficient services, may have been the consequence. In a financial view the success was complete enough, and it was got by following a path which was far from patent.

Mr. Gladstone, in another way, has shown in this later period his discernment of what is required by proposing to tax the charities—a measure which, in addition to its other merits, would have added to the fund by which the general work of remission might be carried on. He failed to carry it as he had carried the succession duty on real property in 1853. The attempt, nevertheless, proved how strenuously he was fighting for the sake of those measures of finance by which the country has prospered so much.

It hardly comes within my plan to criticise in detail Mr. Gladstone's qualities as a financier; but before glancing at the work of the future, and the probable direction of his influence, it may be useful to look at him personally, and point out in one or two important particulars his strength and his weakness. What is the main secret of his splendid success? As far as reputation goes, I believe the impression is that even in finance, what has made him successful and popular is his oratorical power. People look to his budget speeches, remember their startling effects, have been moved by stirring speeches and comparisons to take an interest in subjects which, as usually treated, are repugnant. But for his oratorical art, it is hardly to be questioned, he would not

have created that artificial intelligence which was essential to success. Looking back on the whole series of his speeches, however, it is not this power which strikes the reader most. One is sure to find, indeed, not a few faults in taste, and very often a defective exposition. In his last budget speech, for instance, an impressive statement as to the danger of a load of debt, and our duty to discharge it before the exhaustion of the coal-fields, is merely the preface to a scheme on the paltriest scale by which this duty was to be discharged. Defects of this kind are apt to spoil the appreciation of harangues which can hardly be understood without a feeling of the whole circumstances, not afterwards easy to supply. But what begins to be clear is something not so obvious to those who listened to the speeches at the time—who had almost forgotten one before they heard another. This is the continuity of the orator's own mind, his firm grasp of certain leading ideas of which every new speech is only an application. We see this conspicuously in his notion about checking expenditure. There is hardly one of his great financial efforts in which he does not recur to the theme—his whole financial theory being plainly coloured with a passion against the waste of money, with which experience has taught him to identify almost any Government expenditure. The cry, he has lately said, is always for more efficiency; but he had found that when any money was granted, the cry was as loud as ever. Perhaps more conspicuous still is his impression of the power of free trade. The salient fact he got hold of from the first was the multiplication of the means of employment by taking off artificial restrictions. Long before his first great budget, while he was at the Board of Trade under Sir Robert Peel's Government, we find him making numerous proposals, of which this was the theme; as, for instance, in a remark-

able speech on abolishing the prohibition of the export of machinery. Even in defending the corn laws he assumes that the prospect of increased employment for the people is an irrefragable reason for their abolition—only they must beware of giving too great a shock to old arrangements, and suddenly throwing people out of work. The changes are rung on these phrases almost to the last. The invigoration of trade and commerce, the lightening of the springs of industry, are much in his mind even when proposing the reduction of tea duties, by which money would be put directly into the pockets of the poor. If Mr. Gladstone has changed his financial opinions at all, it is on such a matter as the income-tax. It has been a gradual or cyclical change. As the experiment proceeded, he has come to appreciate more and more its merits as an engine of fiscal reform, though, perhaps, also, the circumstances have changed—the increased expenditure upsetting all the calculations by which the tax would have been temporary, and yet every existing benefit secured. Change of this kind is plainly not inconsistent with the utmost firmness and continuity which characterise a sure-judging mind. To this quality I would attribute in the highest degree Mr. Gladstone's success. The power to persuade others was a valuable gift, but in scientific questions—and finance is scientific, or it is nothing—it is essential to be right in fact. Mr. Gladstone understood at a very early period, and in all its thoroughness, the meaning of the work to be done, and hence the steadiness of his aim.

At the same time, in other matters besides the income-tax, he has not been insensible to the teaching of events. He did not anticipate the overflow of prosperity which has marked the time. Free-trade measures, it should not be forgotten, were rather promoted at first to keep England from decaying altogether. But as the prosperity advanced, he has

continued to enlarge on the duty and necessity of ameliorating the lot of the masses—of keeping this, likewise, as an aim constantly to be cherished. That this sure-judging mind is commonplace and average in its sympathies, always looking at the things as they can be presented to a popular audience, such as Parliament really is, narrows its range of action very much, but that is only saying that the defect is inherent in the very qualities by which the success has been gained.

Were this the only great quality in Mr. Gladstone as a financier, there would be some cause to wonder at the excuse he has given for applying to his finance the epithets, adventurous and crotchety. It is a remarkable alliance with love of subtlety and detail, and with abounding activity and energy, which has introduced into Gladstonian budgets those brilliant devices from which common people are apt to revolt. But Mr. Gladstone, with all his foundation of commonplaceness and steady popular judgment, would yet have been very little in finance without his love of detail and wonderful knowledge of expedients. To a very large extent this only means that he has the enthusiasm of his occupation. People succeed in nothing unless they give their days and nights to it, and Mr. Gladstone has given to finance the sweat and toil of many years of his life. By dint of much study he has acquired a genuine love of the niceties of the malt tax credits, the alcoholic test in the wine duties, the effect of an extra Sunday in a year diminishing, and an extra day in leap year increasing, the amount of revenue, and the infinitely complex problems which are bound up with sugar. He had a real intellectual pleasure in inventing and explaining that intricate operation B in the Terminable Annuities Bill of three years ago. The singularity is, that people rather like in him an exposition of minute detail

which hardly another financier could make tolerable. The net result is, that he is what may be termed *rusé* in finance —never without resource at any crisis. The abundance of expedients, and his audacity, have damaged him in the past, but would hardly have done so if full justice had been done to the solid qualities in which, after all, they had their root.

Mr. Gladstone, nevertheless, has committed many financial sins. Trying so many ingenious schemes, he could not but fail in some; as he failed with the plan for converting the debt, and so reducing the interest, in his budget of 1853, and as he failed on a smaller scale with the stamp on shipping forms, which he expected to parallel his successful penny stamp on receipts. Perhaps, too, he owes to the want of pliancy in his nature a certain capacity of provoking and stimulating opposition. The proposal to tax the charities in 1863 was pushed on with too much haste and vehemence; not even Mr. Gladstone could bring all the world to see at once the force of that logic by which the conclusion in his own mind was slowly built up. On one occasion, too—in 1860—his haste and vehemence led him to make arrangements which would have landed him in a huge deficit, and possibly damaged irretrievably his financial repute. The primary duty of financiers, though it has been dwarfed by other considerations, cannot wholly sink into abeyance, and a great gulf between expenditure and income would not have been forgiven. In fairness, however, it must be allowed, Mr. Gladstone was at least conscious of the risk, and was only more passionately bent than others on the remissions he was effecting. As we could hardly have had the work done at all without him, the error is comparatively venial. It is, perhaps, a graver fault that on the question of expenditure his teaching and preaching have been too one-sided. He

has taken a somewhat narrow view, with the obstinacy of his nature, and harped upon that — very effectively, no doubt, but not with the effect a fuller exposition would have had. It is not the whole truth about expenditure that it is to be discussed as a natural evil, which financiers must league themselves with such allies as they can get to keep under. Nor can any certain measure of expenditure be found in a comparison between one period and another. In addition to what he has done beyond pointing out the importance of a nation setting a scale for itself, and comparing always the price it pays in taxation with what it gets in money spent, Mr. Gladstone would have done well to examine directly the services to which the money is applied. The exposure of inefficiency and waste, of the multitude of useless objects which are sought after, would have been worth a great many speeches in the air, which left behind a vague doubt whether there was not something right on the other side—whether, with all its inconveniences, the high expenditure had not some excuse. Direct teaching by the highest financial authorities on the principles of military and naval expenditure is really a good deal required; and Mr. Gladstone, if some critics are right, might only too easily have shown how all the efficiency talked of, or even more real efficiency, might have been gained at less cost.

Imperfect as this survey has been, it may not be impossible to derive from it some clue to the future. The general features of the situation, it will be evident, are substantially the same. If we have no longer to do with the extension of a free-trade policy, our revenue being derived from no protective duties, and our tariff being so contrived as to yield a large revenue with the least possible injury to trade, and the least trouble to the taxpayer, we have still the main condition of all—the rapid increase in the national

wealth and the elasticity of the revenue. The present temporary arrest of our progress—if, indeed, there has been any real arrest—does not alter the general set of the current, which begins once more to flow in the old direction. We may fairly count on the revival of prosperity for an indefinite period to come, just because labour grows daily more intelligent and effective, and mechanical agencies are continually multiplied. A financier may safely count on a return to nearly the old average of £1,750,000 increase in the year. Such a fact must furnish ever-new opportunities of great budgets, and would have furnished an opportunity two years since had there been any one to seize it, or had the country not been occupied with other matters. The opportunity may at once be made by reducing expenditure to the level at which it stood when that opportunity arose, and trusting to the immediate revival of the revenue. But without any such effort—by merely keeping things as they are, or reducing a very little—any Government may easily have the chance of continuing the work. Is it worth continuing? or are there any counter-schemes to make the finance of the new period altogether novel?

Looking at the past, there is hardly a doubt as to what the action of financiers should be, or as to the line of action Mr. Gladstone would recommend. There is still much in a financier's power towards ameliorating the lot of the masses. The duty on corn, the taxes on locomotion, not a few of the stamp duties, the fire insurance tax, the tea and sugar duties, are all burdens whose abolition would benefit the country, and for the most part put money directly into the pockets of the poor.* So long as taxes of this kind remain, and the wealth of the country grows as it has done, it will be the

* The taxes here referred to have almost all been abolished since 1869.

business of financiers to give people the benefit of the facts. That taxation may rapidly be made much less burdensome than it is should be the guide of their action. The objection may be urged that people would really gain more by a more judicious expenditure—as on education and other things which are now starved. But sudden expenditure on a large scale, even for the best of objects, is not likely to be productive—is not likely in this country to be tried; so that finance ministers may remain at ease notwithstanding this contingency. They need not apprehend any expense to swamp their budgets if there is any decent management, procuring for the country all the real benefit it can gain. The most extravagant could hardly pretend that the new things wanted will cost the country an increasing amount of nearly £2,000,000 a-year, which would be necessary to keep pace with the increasing growth of revenue. Others, however, will say that attention should exclusively be given, for a long time to come, to the diminution of the debt. But this purpose ought surely to be compatible with very large remissions of taxation, as it was, in point of fact, during Mr. Gladstone's last period. To divide the work would be a very fair arrangement, applying equal sums to the remission of taxation and the reduction of debt—an arrangement which has this advantage, that every diminution of the debt lessens the annual charge, and so increases the surpluses that future Chancellors of the Exchequer may expect to give away. How much may be done in this direction is perhaps not well understood. But two facts may set it in a proper light. One is that during the last fifty years the capital of the debt has been reduced by £100,000,000. During the next fifty, if we only have a similar period of broken peace, we should, if we do as well as the last two generations, reduce the debt by £300,000,000. Our taxable income is

three times greater than it was in 1815, and we should be capable of thrice the effort. The other fact is, what might have been during the last sixteen years if the growth of expenditure had been checked with firmer hand. Long before this the free breakfast-table, which Mr. Bright has imagined, might have been enjoyed, and the capital of the debt still farther reduced. If we choose to stand still, and devote all our surpluses with accumulations to paying off debt, we might accomplish as much in the next ten as we have done in the last fifty years. Of course, all this must be written barring accidents, but it proves the measure of the nation's ability; and, much as may be allowed beforehand for accidents, it is hardly wise to forget a high aim altogether, merely because an undefined worst may happen. The facts show, however, that even a great disaster—a war on the largest scale—might occur without arresting for a long time the work of financial reform. It is surely, then, the more allowable to look forward to a better future for our masses, for better conditions of existence so far as the State can make them better, than these now enjoy. Not only might there be a free breakfast-table, but, better still, it should be possible in a very near future to make England a free port, except for spirits and tobacco, without entertaining any grand scheme of direct taxation. Of course so much will not be done without raising the question of equalising taxation upon the various classes of the community—a question which the working classes will *not* lose by having raised; but if it is possible to do so much, the worst difficulties of the question may be evaded. With the income-tax at a vanishing point, if not quite abolished, the richest classes could hardly complain of others gaining rather more than they do by the wholesale remissions of taxation which common prosperity has made possible.

Of course the financial work of the next few years will include much more than this. The succession duty may be further extended, the charities taxed, and many more expedients tried. There are points without number for financial ingenuity, and in a Government of his own, Mr. Gladstone may be expected to aid with all the suggestions his experience and study have furnished. Above all is the question of extending the principle which has been called in to sanction the purchase of the telegraphs. Here, too, much might be said to show how well disposed Mr. Gladstone will be to venture farther in this direction—to acquire the railway monopoly, and work it for the benefit of the whole community. This will be the introduction of some novelty in finance, as the State may lose or gain, financially, by the experiment, though the community can only gain; but it does not seriously affect the prospect of direct financial benefit through the continuance of the work of reform in its recent groove.—[1869.]

# X.

## TAXES ON LAND.*

A CURIOUS and instructive collision has just occurred between a bold and comprehensive project in the application of political economy, and one of those traditional cries in English politics which originate in some class interest, or in circumstances quite different from those which now exist, and yet colour strangely the discussion of practical reforms. I refer to the proposals of the Land Tenure Reform Association on the one side, and the agitation against local rates, or rather against the burdens on land, on the other. There could not be a wider divergence of ideas and aims than what is here discovered. The Association addresses itself directly to one of the gravest questions which can come before an old and crowded community—the question, namely, how the ownership and occupation of its narrow area should be regulated. It challenges the complete applicability here of the rule of absolute ownership which is found expedient as regards other property, and proposes, among other restrictions, that individuals who are allowed to have exclusive possession of any part of the national soil should be specially taxed. In this way, it is argued, the whole community may benefit in some degree from the competition which is inevitable when a large population is crowded into narrow room. The proposal has at least the merit of coming down from philosophy to practice, and raises in a suitable manner a question of the first importance

* Written in 1871.

in a democratic society, where the political power is in the hands of masses who are not the possessors of the soil. The opposing cry—that the possessors of land, or that land itself, are already unjustly burdened—is of a very different kind. It has long occupied a principal place in the party politics of England, though perhaps it was never louder or more persistent than it is now. But it is based upon no great principle. Apparently it began when all taxation was heavy, and when the possessors of land, from their political influence, had a peculiar power of making themselves heard; and it has descended to our own day, partly from habit and partly from keen self-interest, the promised gain to a class from any material change being, as we shall see, very great. But whatever its history, it springs evidently from the lowest practical side of politics—the exact opposite of the rival agitation. In discussing, as I now propose to do, the question on which this collision of opinion occurs, it will probably be useful to keep in mind the contrast which is here presented. Some good may be done by bringing scientific principles to bear on the traditional cry against rates, and by confronting the philosophical principles of Mr. Mill, and of the Association whose programme he expounds, with the practical facts and difficulties of English finance.

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*I.*

It will be convenient to examine, first, the traditional cry. While a good deal has been said and written on the economic theory by which the proposals of the Association are supported, the means of reducing it to practice have only been discussed in the most general terms. If we begin

with a question in the practice of English taxation in this matter, we shall obtain a near view of the field to which the theory must be applied. On the other hand, the indigenous discussion, as it may be termed, is most confused; and progress will be difficult till the confusion is cleared up.

The confusion is at the very beginning. It is difficult to get an exact statement of the grievance of which so much is made. The common mode of speech is something like this:—that land, or real property, has to bear more burdens, in proportion to its value, than any other kind of property. Lord Salisbury, Sir Massey Lopes, and a hundred others, have rung the changes on this theme during the last few months; and I have read not a few laborious estimates of the personal property in the country, and the burdens upon it, got up for comparison with the more accurately ascertained facts as to real property and its burdens. But what is meant by real property bearing burdens is found on examination to be far from clear. The case is sometimes argued as if the burdens were in the nature of an income-tax upon the owners of property, and the rate of the tax is contrasted with the rate which falls on incomes from personal property, or on incomes which are not from property at all; but at other times there is evidently some vague notion that property, as such, should be equally taxed, and that the rule is broken in the case of land. Confused as the statement is, we must take it as it comes, and inquire into the principles it assumes.

Whichever alternative we take, it must strike every student of finance that the principle laid down does not make out the case, even if the facts are as supposed. In either case it is a misapplication of the real doctrine of equality in taxation which political economy lays down. Taking the first alternative, that it is the owners of real

property who pay a larger income-tax than others, it is no doubt true that each taxpayer should contribute according to his ability; but it would not follow that a special income-tax on a certain class would offend against the maxim. If this were so our present income-tax would be grossly unjust, for the masses of incomes are exempt. Theoretically, however, it is obviously quite possible that to produce the final result it may be necessary to tax some sort of incomes exclusively, or more than any other sort. Say, for instance, in a country where a large part of the taxation is raised by duties on articles of general consumption, and is therefore borne by the masses of the people, and another large part by an income-tax which in conjunction with the other taxes falls with peculiar weight on the lower middle class—clearly, in such a community there might be some reason for a third set of taxes designed to fall on the classes more or less exempt from the other two branches of taxation. And if these classes possessed almost exclusively some special kind of property, a tax on that property, supposing it could be made to fall on its owners, would be the very thing to redress an existing inequality. I am only supposing a hypothetical case; but it is enough to show that inequality of burdens on different kinds of property is no part of the theory of taxation.

If we take the other alternative, which makes no assumption that taxes upon a particular sort of property fall upon the incomes of the owners, the theory of the grievance will even appear absurd. How can it be supposed that there is any principle of political economy, when one sort of property is taxed, requiring all property to be taxed alike? *Ex hypothesi*, the ultimate incidence of the tax is not upon the owners of it, and before deciding to tax all property equally it would be necessary for a legislator both to weigh the

immediate effects of his measures and the object he wishes to arrive at. In point of fact, the considerations which induce a legislator to impose or retain special taxes on property will induce him to tax some kinds and let others be exempt. As with taxes on the profits of a particular trade, with which a tax on property may be classed, his object will either be to impose some charge on the general consumer, in which case the tax will fall to be dealt with as one of the many taxes on consumption, or he will select some trade in which the limitation of the area of profit—the tax not being charged to the consumer—will produce the minimum of inconvenience to the whole community. The particular tax will not be unjust *per se*, but its injustice will be determined by the nature of its ultimate incidence, and the extent of its hindrance to business as compared with other taxes. Such considerations have hardly been touched on by those who complain of unequal taxes on property, but they are essential to the question when the so-called burdens on property are not of the nature of an income-tax upon its owners.

What has been said may be enough to prove the great imperfections in the statement of the grievance under discussion. It may be useful to note, however, that in the actual circumstances of England, on the principles suggested, there is a violent presumption in favour of existing taxes on property or profits. They are not likely to be objectionable on any of the grounds suggested. The reason is that they are the last of a heavy burden of a similar kind, and the fact that they are the last is so far a proof that they have been distributed—that if the persons who pay them suffered at one time, they have long since been compensated. Any long-continuing tax on profits tends to adjust itself, but in the case of England during the last thirty years the adjustment has been favoured by the remarkable growth of the

country under the stimulus of the removal of other taxes. The limitation of the profit area caused by the tax has been more than made up by the general progress. Unless, then, there is some overwhelming objection, or some greater good to the whole community would result, such as comes, for instance, from a larger reduction of Customs duties, it would even be inequitable to remove these old taxes. To do so would be simply to make a present of a capital sum to the followers of some particular industry or the owners of some particular property. They have already shared to the full in the general prosperity of the community caused by the lightening of taxation, and now they would obtain in addition the capital value of the tax which they do not really pay, since its burden has been transferred.

There can be no objection, besides, to special taxes on real property, on the ground of their hindrance to trade. Land-owning is so simple a business, that it is divorced from the very notion of trade, and considered a special occupation for trustees and widows and orphans. So simple a business can hardly be checked by a few plain conditions. The objection of hindrance to trade is also compensated by the consideration that the business itself is in the nature of a monopoly. The abolition of brewers' licences was objected to for this among other reasons, that the business had become practically a monopoly in a few hands; to abolish the licences would have been to put money in the pockets of a few without any real chance of its reaching the public. The passenger duty on railways is defended for a similar reason. The duty, it is said, is only a way by which the State reserves to itself the share of a monopoly. This may be wrong as regards railways, but the principle of the reasoning is obviously sound. Now land-owning is, beyond all other callings, in the nature of a monopoly. The whole quantity in a par-

ticular country cannot be increased, and there are besides hundreds of specially favoured spots. As regards land, therefore, that condition exists in the highest degree of force, which makes it probable that any abolition of a tax on profits would not benefit the community.

We are thus a long way from the proposition so confidently assumed, that all property should be taxed alike, There are many questions affecting the regulation of special taxes on property of a very different order. We may look, then, at the particular taxes which form the gravamen of the complaint, and see what portion, if any, offend against the true principle of equality in taxation, by pressing unduly on some classes of income, and which of them, on other grounds, are liable to objection.

The maximum taxation which can form the subject of this inquiry appears to be, from Mr. Goschen's recent report: —

| | |
|---|---|
| Stamp duties on deeds ... .. ... ... ... | £1,033 000 |
| Probate and succession duties ... ... ... ... | 715,000 |
| Land tax ... ... ... ... ... ... ... ... | 1,082,000 |
| House tax ... ... ... ... ... ... ... ... | 1,062,000 |
| Rates ... ... ... ... ... ... ... ... ... | 16,783,000 |
| | £20,675,000 |

Besides these there is the income-tax, which the owners of real property pay like all others; but this is not an exceptional impost on income, and the only question here is of exceptional burdens.

The total of taxation affecting real property looks very formidable. In fact, it is nearly one-third of the entire taxation of the country, imperial and local, and amounts to a charge of about 3s. per pound on the estimated annual value of the property in the country.* But the moment we

* Viz, £143,000,000.

examine the items, we find how little reason there is to suppose that the burden is of the nature of an income-tax on the owners of real property, or that any part is of such a nature as to raise an overwhelming objection against it.

1. The stamp duties on deeds may very well be left out. The heaviest of them is a half per cent. *ad valorem* charge on the sale of property, a charge which is borne by many kinds of other property as well; and even a half per cent. charge is a hardly perceptible tax. It is sunk in charges of much greater magnitude, which always take place at sales. In any case, the incidence of stamp duties is so peculiar, that it cannot be said to affect a class so much as individuals of a class, and these unevenly amongst each other, in comparison with the amount of the duties. Where they are not defensible as a minute charge on transactions, like the receipt and cheque stamps, as I think they may perhaps be now in the case of real property, though it was not always so, there would be a case for their reduction, so as to make them minute enough for the purpose. In that case they would cease to be taxes which could be set off against others in a question of comparative taxation. It would be a mistake, however, in the meantime, to make their existence a ground for interfering with some other impost.

2. The probate and succession duties appear to me also to be a tax *sui generis*, with which no others properly come into comparison. I have to discuss them afterwards; but the distinguishing peculiarity is apparent. They are charges upon a very special extension of the ordinary rights of property, its bequest or descent after death—an extension which necessitates the direct intervention of the State; and as such, the burden which they constitute cannot properly be weighed with burdens of a different nature. If it is discussed as a charge upon a particular description of property, the difficulty

at once arises that it is most unequal and severe. Some owners escape with hardly a charge, while others, who own no more, have much to pay. The only plea by which it can be defended, therefore, is that the Acts in respect of which it is levied—the authorisations given by the State to the transmission of property from the dead to the living—furnish occasion for a wholly exceptional charge. In any case, so far as the probate and succession duties are a tax upon real property generally, it will not be denied that they are more moderate than the corresponding imposts upon other property and its owners.

3. The land tax, which is next on the list, should equally cause but little controversy. It is persistently claimed as a burden upon land or landowners; but this will not bear scrutiny when we inquire out of whose income the tax is paid, or what way it causes pressure, so that its reduction or abolition would be a benefit to the community. As a fixed charge upon land for generations, it is now past all controversy a rent-charge. In many instances it has long since been redeemed, the property having subsequently changed hands; in others, inheritors of property have acquired it under the burden, and have calculated their income minus the tax, while purchasers, in buying, invariably allow for it. To reduce it now would be to present the landowners of England with a capital sum of nearly £30,000,000. Their estates, relieved of the burden, would become at once so much more valuable, and if they did not sell, they would pocket an additional income which they never inherited or paid for.

There remain the house duty and the rates—still a formidable amount, if they are considered to fall on the incomes of real property owners, or as forming an objectionable tax on profits, notwithstanding that the burden is shifted to the consumer. We may class them shortly as rates, the only

difference being that the house duty is a fixed rate limited to certain descriptions of property, whereas the rates apply more or less to all real property, though in fluctuating proportions. But what is the incidence of these rates? Are they, in the first place, an income-tax on the owners of real property? There is one very short answer to this question. If they were an income-tax there is none more outrageously unjust. Most properties, we are told, are incumbered, often heavily incumbered, and the residuary owner, as we may call him, the man who would benefit by a reduction of the rates, has often but a barren interest. Measuring the rates with his income from the property, they might be ten or fifteen shillings in the pound. Is it possible to believe that the owners of real property are subjected to any such income-tax? The inequality in itself suggests that the incidence of the tax is different—that the burden is on the property and not on the individuals who have incomes from it.

The question remains, however, whether the rates are on other grounds objectionable. And here it should be noticed that it is by no means unanimously admitted that they are burdens on the profits of land-owning at all. A large party maintains that to no inconsiderable extent they really are passed on to the consumers—in the country districts, farmers, who pass it on as a deduction from their farming profits; and in towns, the class of occupiers, who both pay it and ultimately bear it. But granting that this transference does not take place to any material extent—a view, I am willing to admit, which I am disposed to agree with—granting that in consequence the whole or most of the charge falls on the profits of owners, are the circumstances such that they have any cause for complaint? The answer is that in the lowest view the business is one which has increased enormously, stimulated by other changes in

taxation, and that being a monoply, as land-owning confessedly is, the magnitude of the charge, even if it has been an increasing one, makes nothing against its propriety. Look only for a moment at what the increase of business has been. In 1815 the annual value of real property—in other words, the annual return of the business—was £53,000,000; in 1853 it was £85,000,000; in 1868 it was £143,000,000. At the same time the rates have barely doubled in the last thirty years, and have not doubled if we take an earlier date for comparison.

The improvement it may be said has arisen through the investment of capital, but this statement cuts two ways. If it means anything at all, it would mean that the charge upon the profits of the business checks investment, but nothing of the sort is alleged. The fact that investment has continued is thus a proof that the burden, whatever it is, has still left a large enough margin of profit to induce a resort to this species of business. It is certain, however, that a large part of the improvement is due to the increasing value of advantageous sites, an unearned increase of value such as Mr. Mill speaks of, and therefore a kind of profit which the State may restrict with least harm. The increase of the annual value of house property in the country since 1815 has been £54,000,000, or 356 per cent., although the population has barely doubled. If we estimate that only a fifth of this amount is for extra ground rents—that is, rentals in excess of the value of the area occupied for agricultural purposes—we shall probably be far under the mark. And this is not the only unearned increase of value. Against the large amount of rates therefore is to be set an unearned increase of value which altogether will be of equal amount, and double, perhaps treble, what the increase of rates has been.

Nor does the case as to profit end here. The increase of rental value does not measure the actual increase of profit with which the rating-charge should be compared. It is probably the case that as respects the bulk of property in area, the increase of rental measures the whole increase of value; but there is one kind of property, that in the suburbs of large towns not taken up for building, extending in the case of London in all directions but the east over an area of about eighty miles diameter, where the increase of rental is no measure at all of the increased value. The position of the property is in effect discounted, and it is no exaggeration to say that its real selling value is now double what it would have been ten or fifteen years ago upon the same rental. It would be useless to put any figure estimate upon this increase of value, but it must be remembered as a set-off against "increasing" rates.

The question might well be left upon these broad facts, and the general principles stated, but there are other facts about the rates which affect the question of the business profits on which they are a charge. When we look into them we discover that the increase has been far from uniform geographically, or in respect of the class of property affected. The increase has in fact been confined to that class of property in which the investment of capital has taken place to the largest extent, while as respects the remainder of the property, there has either been a diminution of the burden or no material increase. The inference is, that while the rates where they have increased have not checked investment, there is an immense mass of property which has augmented in value without any proportionate charge upon its profits. The facts speak for themselves. First of all, of the above sum of £16,783,000 of rates proper, there are upwards of

£4,000,000 of comparatively recent rates which not only form a charge upon the property in which the investment of capital has taken place, but were mainly intended for the improvement of that property. The remainder, £12,689,000, is very little more in amount than similar rates have been during the present century, and the rate per pound is less.

| | | | | |
|---|---|---|---|---|
| In 1817 | the rates were | £10,000,000, | or per £ | 3s. 10¾d. |
| 1826 | ,, | 9,500,000, | ,, | 3s. 8d. |
| 1841 | ,, | 8,000,000, | ,, | 2s. 7d. |
| 1852 | ,, | 8,700,000, | ,, | 2s 7d |
| 1868 | ,, | 12,689,000, | ,, | 2s. 6¼d. |

Thus, as respects a large part of the real property in the country, it is incorrect, strictly speaking, to talk of the increase of rates.

The second fact is, that at time when real property was different in its constituents from what it is now, there was an enormous diminution of the burden, precedent to the subsequent rise in proportion to the value.

In 1826—

| | |
|---|---|
| The rates were | £9,500,000 |
| House duty | 1,182,000 |
| Window duty | 1,167,000 |
| | £11,849,000 |

In 1843—

| | |
|---|---|
| The rates were | 8,000,000 |
| House duty | nil. |
| Window duty | 1,436,000 |
| | £9,436,000 |

showing an actual diminution of about £2,500,000, representing a capital sum of about £75,000,000 in the charges upon the property then existing—a burden which has never since been reimposed, as the rates, including house duty, have only risen in proportion with the augmentation of rent. The relief to the old property has been permanent.

It is thus evident, that while so much has been heard of the increase of rates, the actual fact is entirely different. The increase, such as it was, has been limited in extent, and conceals an actual diminution in the amounts levied upon part of the property which has since never been made good. To complete the statement, we need only ask ourselves what the effect would be of any such reduction of rates as the principles of the anti-rate agitators point to. Consequences are very often a test of principles, the logical result proving the groundlessness of the plea. And this appears to be the case in the present matter. Grant that certain rates* are thrown on the Consolidated Fund, as the most eager reasoners of the party contend, or that they are reduced one-half, which would be the effect of throwing them rateably on all the schedules of the income-tax, what would be the result? It is not difficult to see that in the former case some people would have £11,000,000 a-year, and in the latter case £5,500,000 a-year more than they had before. Possibly it would not all go to the so-called owners of property, for the occupiers would gain where they are dealt with on tenant-right principles; but it may be treated practically as a bonus to owners, and, as such, it is of magnificent dimensions. In the one case, at thirty years' purchase only, it represents a capital of £330,000,000, and in the other of half that amount—all to be transferred to a single class by a

* Viz., poor and police rates, amounting to about £11,000,000.

few lines in an Act of Parliament! To state such a result is to make the argument absurd. Unless it is to be contended that the State keeps out of the pockets of the class some £300,000,000 which they ought to have now, there is no call to give the money. And if the State inflicts such a wrong, the sooner it pays back what it has exacted, with interest, the better.

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*II.*

Having thus examined the case against existing burdens on land, I turn to the second part of my subject—the claims urged by the Land Tenure Reform Association for securing to the State a share of the unearned increase of value. The inquiry, however, should have prepared the way for looking at the question from the Association's point of view. It has been seen that upon the general theory of taxation special burdens on this particular description of property are not unreasonable, that they are not without analogy in taxes upon trade profits, which no one thinks of altering on the ground that "other property" escapes the burden, or that they are a special income-tax on the people in the trade. It has also been shown that, if taxes on profits are justifiable in any case, the circumstances of land-owning are such as to reduce the hardship of the owners to a minimum when their profits are taxed. The business is a monopoly, and simple in the highest degree, and nowhere else can be found more favouring conditions for a tax upon profits. We are thus prepared for the inquiry, whether so peculiar a business could not be made to bear a larger burden; and for the theory of the Association, that while it is only on grounds of expediency the State permits individual property in land at all, there is no reason of expediency against its limiting

that right of individual property by a large reservation in its own favour. If there is any reason in this theory at all, the facts stated will have suggested the magnitude of the value in which the State may claim a share. The augmenting value, on which it is urged the State would have had the first claim under a proper financial system, must have amounted, in the last thirty years, to hundreds of millions sterling.

Now in theory, so far as I can see, there is absolutely nothing to be urged, and nothing has, in fact, been urged, against the principle of the Association. The soil of the nation *is* primarily the property of the whole nation—the common inheritance of all, regarding which the State, according to its lights, cannot help laying down rules from time to time for the common advantage. There is no other final authority, and if the action of that authority is to be limited by so-called rights, if on cause shown it may not destine the whole land, or any part of it, to any use it pleases, then we have this anomaly—that the most vital necessity of national existence is to be held, not under the direction of the State, but subject to some arbitrary limitations in favour of individuals or classes, based on a superstition of right. In point of fact, as well as theory, no such limitation has ever been admitted by English law. Year after year the national Parliament exercises in innumerable cases the right of diverting some part of the "common inheritance" from one use to another. If it so acts in part and detail, it has clearly a right to take a wider range and exercise its discretion upon the whole or a large part of the soil of the country. The only question would be whether the particular regulations or uses proposed to it are wise.

And whatever regulations may be objected to, it seems to me that, assuming private property in land to be retained

as the rule, the imposition of special charges on it, which will be in the nature of mining royalties, or a reserved rent-charge, or like the casualties under feudal tenures, will be about as innocent a way of limiting the privilege, interfering as little as possible with the individual enjoyment as could well be desired. It leaves untouched the right of exclusive possession, which is the main thing coveted, and merely keeps to the State a charge, which exactly resembles many other charges by which the privilege of absolute possession is limited. Of course the mode of the reservation will be an important matter; but theoretically there is no reason against reserving something.

It may be added that the more progressive a community, the more likely it is that any proper reservation will be little felt as a burden. By the hypothesis, it is in such communities that competition will cause an immense unearned increase of rent and of capital value. There will be a large margin for ground rents of every description, and the State ground rent will be no more felt than the others. So free from hardship will the charge in fact be, that just as the commuted tithe rent-charge and the land tax are no longer felt as burdens by the present possessors of land, the whole charge of the State, when it is carefully studied, will be acknowledged as equally light.

But what form should the charge of the State assume, and how much in the present condition of things, as respects property, business, and population, should the State endeavour to obtain? Clearly, if the phenomena of the last thirty years are about to be repeated—and there is a reasonable chance that they will be, for there is no sign of check to the growth of population or the increase of machinery and inventions—it is much to be wished that a better system should, if possible, be at work than has

hitherto existed for securing to the nation a portion of the augmenting value of its soil. The problem, however, is excessively difficult, and I doubt very much whether Mr. Mill's own suggestion, which must be first considered, will be found, as a general measure, to answer the purpose. It is in effect a proposal to go straight to the end in view—that the State should inquire at prescribed intervals what is the augmenting rental of land, and make a charge upon the owners of some definite portion of that augmentation. If there is no increase of rental due to general causes, there will be no increase of tax, and owners who object will have the opportunity of surrendering their estate on what Mr. Mill's enemies must admit will be full compensation. One objection to this proposal is that it is almost wholly novel in European countries, at least where the art of taxation has been most carefully studied, and is least of all fitted for a country in the circumstances of England. Mr. Mill has apparently in view the ideal of the *foncier* taxes on the Continent, in which the process is for the State at a certain date to impose a lump charge on the whole land of the country in proportion to its estimated value, and then apportion this charge among the various localities and parts of soil in the country, by a carefully arranged *cadastre*, But there is nothing more tedious in fact than the completion of a *cadastre*, or unequal when it is completed. Even in France, which has set the example in these *foncier* taxes, the new *cadastre*, which was commenced forty years ago, was only completed the other day, and while it was being put into operation the value of the whole land subject to it was changing. It is hardly possible to imagine that even if in England, we could give that attention to the nice adjustment of competing qualities of land or property, which could alone make the basis of

French direct taxes endurable, we should be content to await the slow development of a pretentiously perfect, but really imperfect, *cadastre* for a period of forty years. It is a still more fatal objection that such taxes do not appear to draw. It is officially estimated in France that the annual value of real property has increased since 1821 from £64,000,000 to £160,000,000, which is quite comparable with the increase in England. But while the rates have risen in England from about £10,000,000 to £17,000,000, the special land tax of France has only risen from £11,720,000 to £12,280,000, including the additional hundredths imposed for local purposes, as well as the "principal" of the tax. The special tax of England is thus more elastic and effective than the special tax of France, which is proposed as a model. Besides, if these objections could be got over, if it could be shown that an improved *cadastre* is easily possible, and is capable of frequent renewal, there would remain the objection that such a tax, so imposed, might interfere with the enjoyment of private property in an inexpedient manner. It would be very difficult to reassure individuals against the operations of the tax assessors. Every few years they would foresee a demand of an indefinite amount, depending on many points of taste and opinion, and they would only have the alternative of paying or surrendering their property to the State. Careful as Mr. Mill is to suggest safeguards, the essential nature of the transaction would be such as to destroy confidence in the continuity of private right in some particular plot of land. The apprehensions might in the main be unfounded, but their existence would be a public calamity, unless the theory is admitted that the abolition of private property would be beneficial, which in some localities it might be.

Turning from this suggestion, I think there is much to

be said in favour of our present special taxes on land, imperfect as we have shown them to be. They have permitted the growth of an immense mass of value in the hands of individuals only, and at a very recent date there was a sudden reduction of the burden, by which a small class received a considerable gain. But with all their imperfections they have the merit of elasticity. They are set apart for the discharge of certain branches of expenditure; and, without fluctuating so widely as to disturb property rights, they may be increased materially, and so reserve for the State some portion, however insignificant it may be, of the augmenting value of property. This is no small merit, especially when compared with the model of the continental land taxes, which have no such capacity of expansion. It is an additional convenience that, as the branches of expenditure which are thrown specially on this property are local, local administration and local taxation can be associated. In this view rates are, in fact, a happy English invention, by which different and unconnected advantages are obtained in a rough practical fashion, and as it is a familiar system we have another obvious reason for trying to make the most of it. Could not something more be made of it? It will be of some use perhaps if the discussion of the principles on which the burden is imposed makes it clear that no injustice is now committed—that the support of a certain burden of expenditure is a condition of the enjoyment of the property which the State may properly impose. Every one knows the condition beforehand, and as it is quite a calculable one, notwithstanding the loud talk of the increase of rates, and the addition of new rates, there is no inexpediency in it as a too heavy restriction on the enjoyment of private property in land. But the discussion, I think, may do more, and justify the imposition of new

charges which are convenient for local administration. As the tendency of the functions of local government is to increase, and the additional expense has not yet proved commensurate with the increase of the value of property, we have a security in the recognition of this principle, both for the reservation to the State of a part of that value—though, I fear, a most inadequate part—and for the safety of private property against any great disturbance. If I might venture to make a suggestion, there is one new charge which escapes notice, and which might very properly be treated as a branch of local expenditure: the army for home defence ought to be locally maintained. For many reasons it is important that a good deal of local management and self-government should be associated with the organisation of our militia and volunteers, and the charges might very properly fall on the rates. This would not only relieve the Imperial army estimates of a heterogeneous charge, but by really associating localities with the work, would contribute much to the strength and vitality of our home system of defence. There is another way in which something more could be made of the present system. Under the haphazard methods and want of principle which have hitherto prevailed the local rates have gradually been relieved of a large portion of the burden which properly falls upon them. On one pretext or another, the Imperial Exchequer has been drawn on for "grants," amounting annually in England to a million and a quarter, by which the growth of the local burden has been retarded—or, in other words, the individual landowner has been permitted to retain a larger share than otherwise he would retain of the augmenting value of land. Good reasons, I think, have been furnished for putting a stop to this system, if rates continue to be the form of our especial tax. The proper course would now be to institute

a mode of discontinuing the grants by degrees, according to a defined scale, and so reimpose on property a burden which it has escaped.

But while the system of rates is preserved and amended, as the principal agency for securing to the State a share in the national soil, there is another mode in which it seems to me a smaller advantage of the same sort may be gained, equally without disturbing the security of private property in land. I have already referred to the probate and succession duties, pointing out the confusion of thought which leads to the share of them derived from land being added in with taxes of different kinds, so as to present a large total of burdens on land. But the *rationale* of these taxes is so important a part of the art of taxation that, even apart from the suggestion I intend making, I may be excused from returning to the subject and showing how the special nature of these taxes makes it improper to classify them with the burdens on property.

Their distinguishing feature, as has been already said, is that they are a charge for a special intervention of the State —for the authority it gives to the transmission of property from the dead to the living. It is common to consider the bequest and descent of property as mere extensions of the right of private property, but they are not so historically or practically. The reasons which make private property expedient during life do not apply with the same force to the transmission of it at death. It would be difficult to conceive of a large society existing without absolute ownership in the fruits of individual industry, but so long as people are secure in what they earn themselves a very severe strain may be put on the rules for disposing of it at death without endangering the existence of society. Instead of the absolute right of bequest and the unincumbered descent

of property to individuals when there is no bequest, being an ordinance of nature as of natural right, they are in fact very peculiarly the creations of the State, and have been modified in all civilised countries to suit its varying policy. For these reasons a special tax on successions has an undoubted justification. The State being their author, and having, strictly speaking, the power and right to absorb them altogether, a power which it would be infinitely less inexpedient to exercise than would be its similar power in regard to private property—the special tax becomes virtually a charge for a concession which the State grants, and which it might conceivably withhold, or at least very seriously curtail. Viewed in any other light, it appears to me wholly indefensible, for though it would no doubt fall on the payer at a convenient time for payment, its pressure on individuals would be most unequal, and it would thus offend against a cardinal maxim of taxation.

Regarding it as a charge upon a concession however, we may recognise in the State a capacity for varying it which would not exist in the case of an ordinary tax. It may take into account, in adjusting the so-called tax, the whole policy of the law of succession and bequest, and the nature of the property itself. The principles to guide it seem hardly to admit of discussion. The tax must not be so severe as to check accumulation, or be severely felt, so as to cause individual suffering even when accumulation is not checked. Subject to these restrictions the State should simply take by a succession duty what it can. It follows that its charge should be most moderate where the transmission resembles most a continuance of the enjoyment of private property, or is the transmission of property which the deceased person has acquired by his own industry, and in acquiring which he may be supposed to have been influenced by the prospect of

regulating the succession; and should be most severe in the contrary case, where the transmission is to strangers, or where the property has been inherited. Unless these points are kept in mind the State will not be able to levy so large an amount as would otherwise be possible for it. To make the charge uniform would simply be to limit it to the minimum possible in those cases where the succession of the dependents of a deceased person, whose income dies with them, gives the tax the appearance of a charge not upon inheritance, but impoverishment. It would be quite consistent with the principle of the tax, however, to look at the composition of the property bequeathed; to say that as the possession of a certain kind of property over which the State had primary rights was keenly competed for, one condition of its enjoyment should be a special liability to taxes on successions. No person could complain, for there are abundant modes of investment besides land, and those who wished to have an unrestricted privilege of bequest could invest in other property. Even a charge of five per cent., however, would probably present no inducement to people to keep away from land. It is very seldom that an entire fortune is thus invested (it would be sheer folly so to invest it), and the total charge on the succession, though it is five per cent. on a portion of it, might not be much higher than it is. I need not add that if there is any reason in this view of succession duties, the singular arrangement by which land now pays least of all is more than indefensible; it is a gross neglect of the State to secure a due to which it is most fairly entitled. The arrangement is another instance of the perversity of discussions about the incidence of taxes according to the historical method in England. An illogical mode of comparison has not only enabled the owners of land to secure for themselves an augmenting value in which the State might well have had a larger share, but has enabled a class which

enjoys a valuable monopoly to escape payment on its successions of the charges which other classes of the community, enjoying no monopoly, have to bear.

After all, it may well be doubted whether by any process that would not be worse than the disease, anything but a small fraction of the augmenting value of land will ever be secured for the State. At the past rate of increase, the real property of England, which is now worth about £150,000,000 a-year, will be worth £250,000,000 in another thirty years. And a large part of this additional £100,000,000, perhaps the half of it or more, will not be owing to any investment of capital in improvements, but to increasing monopoly value. At the past rate of increase, however, our rates will be under £30,000,000, so that, at the outside, there will not be an additional burden of £15,000,000 to set against an additional value of £100,000,000, while much of that additional burden will also have fallen, not on the property generally, but on the profits of the improvements. There is little hope of touching this immense augmentation. But this is hardly a result to be rejoiced over by the defenders of private property in land. If they were wise in their generation it should be their aim to show that the present system, besides any indirect advantages to the community it may have, is also directly beneficial to the State, because it provides a large fund for the support of national charges. Looking forward to the great increase of value which is inevitable, they should rather, of all others, be anxious to secure a large appropriation to the State, as some compensation to the masses for the privilege of exclusive possession which they enjoy. The divorce of the people of England from the soil would be more, and not less, defensible than it is if it could be shown that private property in it was so regulated as to relieve the general taxpayer of his burdens.

## XI.

# THE REDUCTION OF THE NATIONAL DEBT.*

It is probable that the question so formally put last session to the country, whether we shall now begin in earnest to reduce our debt, will not be lost sight of. Not that after all there was much absolute novelty in the arguments, so far as they were sound, urged by Mr. Gladstone and Mr. Mill. On general principles the propriety of doing something to reduce the incubus of the debt had long been acknowledged, and the one argument of novelty introduced—the approaching exhaustion of our coal supplies—was by no means generally accepted, and was not effectually impressed on the popular mind. We may in time become educated as a nation up to the point of forecasting and providing for contingencies that may fall out after the lapse of a century or more; but at present public men do not feel sure of their ground, when such elements are mixed up in discussion. The speeches of last session, however, recalled the nation to a sense of the duty which for years had been neglected, at first perhaps deliberately and wisely, but latterly simply because we had got out of the habit of regarding our debt. It was necessary no doubt at one time to give up all thought of reducing or abolishing the debt and concentrate every energy on the amendment of our revenue laws; but the discussions of last session reminded the nation of the facts it had apparently forgotten,—that the amendment of our laws had been secured, and that the country had so

* Written in 1867.

progressed in a single generation that what was difficult, or perhaps impossible, thirty or forty years ago had become easy of accomplishment.

One of the effects of the revived attention to the subject is the proposal of various schemes of more or less ingenuity, which may be generally described as modes of gaining the object without the nation being conscious of the process. It seems to be taken for granted that the nation cannot openly be pledged to perseverance in the work, or even roused up to a considerable effort. A contrivance accordingly is sought for by which in a good frame of mind the nation may be seduced into making a small sacrifice, sufficient to set agoing a self-acting machinery, which will afterwards be beyond its meddling. The nation is thus to be saved from its debt in spite of itself. Such was the character of Mr. Gladstone's own proposal last session. The conversion of the Savings Bank Debt into a terminable annuity was essentially a proposal to absorb so much of the annual revenue for the purposes of a sinking fund, which would have gone on operating almost without the observation of Parliament or the country. Year after year the Chancellor of the Exchequer would have come down to the House with a constantly increasing charge in the budget for terminable annuities, and it would have been treated like the other charge for the debt as an item of first necessity. It seemed rather inconsistent first to rouse the country to a sense of its duty, and then propose a measure which assumed that the country required to be cheated into perseverance; but Mr. Gladstone saved himself from self-stultification by pleading that his proposal was not all he had in view, and that to pay off by terminable annuities was an excellent method of distributing the burden. The scheme it may be added, so far as the House was to be

committed to it, was certainly a small one, as it would only have cleared away at the outside about £62,500,000 of the debt nominally in twenty years, but not really so, for some of the annuities were to run on till 1905.

The same characteristics of smallness of effort and withdrawal of national observation from the process, after it is started, apply to two other schemes which have lately been heard of. One of these is a scheme, said to have been under the consideration of the Government, for making the nation the holder of railway debentures. It is thought that by the Government's borrowing from the public it may be able to re-lend to railways on debenture bonds so as to make a profit, which may form an accumulating fund for the reduction of the national debt. Government, we are told, can borrow from the public at 3½ per cent. or thereabouts, while between 4½ and 5 per cent. will be obtainable from the railway companies. An incidental advantage of the scheme, it is contemplated, will be the security of the public against over-issues of debentures by railway companies, and the right of inspection and control which Government as lender will obtain; but without noticing these advantages, and some practical objections also urged, we may consider it evident that no great impression on the debt is likely to be produced. It would be a good many years before the profits of the business, however large it might be, would suffice to purchase a large amount of consols. The total amount outstanding in debentures in 1865 could have been little more than £97,821,000, known to be outstanding on twenty-six of the principal railways, and supposing Government to gain a difference of one per cent. by transactions on the whole of that amount, the sum available against the debt would only be about £970,000 per annum. It would be impossible, however, for Government to obtain so large a business at once. It will be

several years before existing debentures fall due, and not till then can Government step in between the public and railways and insist on becoming the only lender. It will also require to be considered whether so great a difference as one per cent. will be obtainable when Government goes more frequently than at present into the loan market. But, small or not, the scheme will be, more completely even than Mr. Gladstone's last session, withdrawn from the annual notice of the country in the ordinary course of finance. A department once constituted for the management of the business must obtain at the outset the necessary borrowing powers, and may then go on borrowing and lending, the country taking no part in the effort, and only watching as an outside spectator the gradual diminution of debt or the accumulation against it of a valuable property.

The remaining scheme is that of Mr. R. Dudley Baxter, and was stated by him in a paper read to the Statistical Society, afterwards supplemented by a letter to the *Times*. It is perhaps of greater magnitude than either of the others, but still a partial effort. Mr. Baxter proposes to appropriate the amount of the railway duty—about £450,000, but likely soon to be £500,000 per annum—as the nucleus of a novel sinking fund. This appropriation and the accumulations, instead of being invested in the debt itself, like sinking funds which have failed, he proposes to invest in ordinary or preference stock of railways, yielding at least a dividend of 4 per cent. By so doing he calculates that at the end of 72 years the nation will be possessed of about £200,000,000 of railway stock, the annual revenue of which, at no more than 4 per cent., will be equal to the interest on £250,000,000 of consols. This looks a large sum, but then the process will take seventy-two years. Mr. Gladstone's scheme of last year, if prolonged for the same period, would probably have been

more effective, for, while the sum started with was the same, one of the complaints against it was that the more debt there was paid off the more the annual charge on the country increased; and this would have gone on till the whole debt had undergone the process of conversion into terminable annuities. By Mr. Baxter's plan, however, nothing more than the proceeds of the railway duty is to be appropriated annually, and once begun the process is to go on, "not easily touched by a Finance Minister."

These two schemes have been assailed a good deal on practical grounds. There is an instinctive disbelief in the ability of a Government department to make a profit. Very likely it is thought loans will be made to, and stock bought in, insolvent concerns. Government as one among a number of debenture or stockholders will be exposed to the clamour of private interests, and compelled to endure losses. Insufficient care will be taken against depreciation in ordinary circumstances, and a new invention may be discovered superseding railways. The risks to be run are far greater than the gain to be made. Although Mr. Baxter may fight a good battle with his objectors on some of these grounds, urging that railways may be simply managed like a post-office, and that the business is therefore not beyond the ability of a good department, yet there is perhaps no getting over the last difficulty, that the gain must be small. His scheme cannot be considered by itself, but falls to be compared with a simpler scheme, for which only the same annual appropriation is required. Now £500,000 annually invested in the 3 per Cents., the interest on the cancelled debt being annually added to the appropriation, would yield very nearly the same result. Mr. Baxter can only urge that his process is withdrawn from annual Parliamentary meddling, which a simpler

scheme would be exposed to, but this questionable advantage is won at the risks which have been stated. We do not insist, however, on these objections. What we wish to point out is, that none of these schemes are big enough to satisfy the appeals which have been addressed to the national conscience, or the real necessities of the case. Mr. Gladstone, as we have seen, admits that even after his scheme has been adopted more remains to be done; and it cannot surely be argued that to pay off about a fourth of the debt in seventy-two years, as Mr. Baxter suggests, will sufficiently discharge our duty. Schemes which are only to become very effective a generation or two hence are too much like sportive efforts to provide for a remote event, only half expected to occur, like the exhaustion of our coal-fields. For all practical purposes, a reduction of the debt, if it is to be worth anything at all, if it is to be an object worth rousing the nation for, must be on a considerable scale, and immediate. The practical reason for removing a large portion of the burden is to strengthen the State financially. We are wasting our resources if the debt is left unpaid, while we could pay off a large portion without crippling the development of commerce or industry.

The first question of all then in considering what we are to do with the debt is the extent of our ability—a subject perhaps not sufficiently adverted to. It has been very much the fashion to assume that the British taxpayer will not submit to be taxed to pay off the debt, but in such cases the debt must continue the despair of financiers. It ought to be assumed, however, that taxation will be submitted to, provided a good case can be made out. It is a fallacy to suppose that all the money which is lost to the State by the neglect to impose taxes which might be imposed "fructifies in the pockets of the people." Up to a certain point it is no

doubt most profitable to remit taxes, the savings of individuals far exceeding the waste from the additional amount left in their hands, but beyond that point the greater part of the remissions made is consumed, and it is then a waste of national resources to remit—a waste which becomes most culpable when an important national object is simultaneously neglected.

There are two modes of considering what revenue could now be raised if occasion called for it—one is to look at the progress in wealth we have made, and the other at the actual progress in regard to revenue itself. There are no statistics estimating from time to time the property of the country, but some of the facts usually held to indicate that we are four or five times richer than we were fifty years ago, consequently able to raise a much larger revenue, are familiar enough, and may be briefly glanced at to illustrate the remarks we have to make on our revenue. We may first take into account the fact that the population of the United Kingdom, which, taking the average of 1813, 1814, and 1815 was 19,341,000, had grown in 1864 to 29,391,000. This fact would of itself indicate our ability now to pay half as many taxes again as were paid in those years, even supposing the average wealth of the people per head had not increased. The amount of taxes paid then averaged £70,697,000 per annum, so that if we were proportionately taxed the revenue would now be £106,000,000. That the average wealth of the people per head is much greater is indicated by several statistical facts which may be allowed to bring together. First, there is the enormous increase in exports and imports. In 1814, 1815, and 1816 the average exports of British and Irish produce, allowing for the depreciation of paper money, were £37,001,365; the average in the three years ending 1845 had mounted up to £56,991,000; but in 1865 the total was

no less than £165,835,725. There has been a similar rise in the imports, and although the statistics are not completed, it is known from the Board of Trade returns that this year is likely to be ahead of all its predecessors. The shipping statistics are also very significant. The shipping belonging to the country amounted in the three years ending 1816 to 21,338, with a tonnage of 2,441,878; the number in 1865 was 28,787, with a tonnage of 5,760,309. The tonnage, which is the important matter, has thus been more than doubled, a very striking increase looking to the great number of steam, which have displaced sailing, vessels, and the greater work thus done now by a smaller quantity of shipping. This is corroborated by the returns of clearances outwards and inwards. Excluding the home coasting trade, which does not appear in the returns before 1861, but including the trade between Great Britain and Ireland, the number of ships, which in the three years ending 1816 cleared outwards and inwards, averaged 62,182, with a tonnage of 6,771,705 per year; but the number of ships in 1865 was 161,114, with a tonnage of 37,639,146—thus showing, according to the tonnage, a growth of commerce to between five and six times its proportions at the close of the great war. Indeed, we may know without any statistics how much the steam engine and other inventions have multiplied wealth. We have stated the effect in the matter of shipping. In the same way the introduction of railways it was calculated saved to some towns in the reduced price of coals alone as much as the whole rental, and Mr. Baxter estimates that in 1864 the expense of conveying the traffic which passed over our railways was £72,000,000 less than it would have been according to the old rates of conveyance—an annual saving of more than the whole amount of our taxes, and equal to the amount of the taxes in 1815.

There are one or two facts illustrating more directly the increase of our wealth. According to a Parliamentary Return in 1852, the yield in Great Britain of the income and property tax at the 10 per cent. rate was in 1815 £15,642,000, which would show property assessable of the annual value of £156,000,000, or allowing for the depreciation of paper about £120,000,000. In 1864-5 the annual value chargeable in Great Britain was about £307,000,000—an increase of more than one and a-half times since 1815. It has to be taken into account besides that the classes whose wealth has increased most are probably not the number, comparatively small, who pay income-tax, but the great masses of the people, among whom the general average of comfort has notoriously advanced, so that the general wealth may have increased in much greater ratio than the portion affected by the income-tax. The returns as to the legacy duty show very similar results. Mr. Porter, only allowing 10 per cent. for depreciated values, calculates that the capital subject to legacy duty in 1814 was £24,569,100. In 1845 the capital was £45,999,000, very nearly double, and in 1855, the latest date to which we have seen a return, the amount was £62,601,000, an addition of one and a-half times to the amount of 1814. Assuming that the rate of progress between 1845 and 1855 has since been maintained, the return for the present time would rather more than treble the amount of 1814. If then our foreign trade has multiplied five or six times since 1815; if, as there is good reason to believe, our home trade has increased in like proportion; and, last of all, if certain kinds of property—probably not those in which greatest progress has been made—have trebled, or nearly trebled in value, it is surely no extravagant supposition that the average wealth

of the country has progressed at the lowest of these rates. Consequently the country must be now three times richer than it was in 1814, and able to bear three times the taxation.

Keeping these facts in mind we may inquire how they corroborate inferences which would be justifiable looking at the progress of the revenue alone. According to the official returns the net amount of taxes remitted in Great Britain and Ireland from 1815 to the present time, including the large remission which took place in 1815, owing to the close of the war, and the remissions of 1865-6 as well as of the current financial year only now operating, amounted to the enormous sum of £57,765,000, within £13,000,000 of the total annual produce of the taxes in the last three years of the war. Of course the total looks bigger, because some of the taxes were remitted when the country had attained a higher degree of prosperity compared with 1815, and the yield of each tax was consequently greater. But this statement, if we allow that all our taxes were recently remitted, is still a striking proof of prosperity. The gross return of the taxes was last year £67,812,000, nearly as much as at the close of the war, and if all the remissions had been recent, the inference would be that our taxpaying power is double what it was, since we have remitted nearly as much as we raise. But the truth is a large amount of the above total was remitted long ago, as an inspection of the following table will show:—

*Table showing annually and quinquennially the remissions of taxation in the United Kingdom since* 1815.

| | Remitted. | Imposed. | Net Annual Remission. | Quinquennial Remission. |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| 1815 (separately) | 14,586,327 | 701,538 | 13,884,789 | 13,884,789 |
| 1816 to 1820, inclusive | £ | £ | £ | |
| 1816 | 3,502,717 | 320,058 | 3,182,659 | |
| 1817 | 36,495 | 7,991 | 28,504 | |
| 1818 | 9,504 | 1,356 | 8,148 | |
| 1819 | 730,846 | 2,971,902 | −2,241,056 | |
| 1820 | 4,000 | 119,602 | −115,602 | |
| | 4,283,562 | 3,420,909 | | 862,653 |
| 1821 to 1825 inclusive | £ | £ | £ | |
| 1821 | 20,005 | 42,642 | −22,637 | |
| 1822 | 2,590,405 | — | 2,590,405 | |
| 1823 | 4,050,250 | 18,596 | 4,031,654 | |
| 1824 | 1,704,724 | 45,605 | 1,659,119 | |
| 1825 | 3,639,551 | 43,000 | 3,596,551 | |
| | 12,004,935 | 149,843 | | 11,885,092 |
| 1826 to 1830 inclusive | £ | £ | £ | |
| 1826 | 1,973,612 | 388,725 | 1,584,887 | |
| 1827 | 84,038 | 21,402 | 62,636 | |
| 1828 | 51,998 | 1,963 | 50,035 | |
| 1829 | 126,406 | — | 126,406 | |
| 1830 | 4,093,955 | 696,004 | 3,397,951 | |
| | 6,330,009 | 1,108,094 | | 5,221,915 |
| 1831 to 1835 inclusive | £ | £ | £ | |
| 1831 | 1,623,536 | 627,586 | 995,950 | |
| 1832 | 774,288 | 44,526 | 729,762 | |
| 1833 | 1,532,128 | — | 1,532,128 | |
| 1834 | 2,064,516 | 198,394 | 1,866,122 | |
| 1835 | 176,877 | 75 | 176,802 | |
| | 6,171,345 | 870,581 | | 5,300,764 |
| 1836 to 1840 inclusive | £ | £ | £ | |
| 1836 | 989,786 | 3,991 | 985,795 | |
| 1837 | 234 | 100 | 134 | |
| 1838 | 289 | 1,733 | −1,444 | |
| 1839 | 63,418 | — | 63,418 | |
| 1840 | 1,258,959 | 2,155,673 | −896,714 | |
| | 2,312,686 | 2,161,497 | | 151,189 |

*Table showing annually and quinquennially the remissions of taxation in the United Kingdom since* 1815.—(*Continued.*)

| | Remitted. | Imposed. | Net Annual Remission. | Quinquennial Remission. |
|---|---|---|---|---|
| 1841 to 1845 inclusive | £ | £ | £ | £ |
| 1841 | 27,170 | — | 27,170 | |
| 1842 | 1,587,366 | 5,629,989 | −4,042,623 | |
| 1843 | 411,521 | — | 411,521 | |
| 1844 | 458,390 | — | 458,390 | |
| 1845 | 4,536,561 | 23,720 | 4,512,841 | |
| | 7,021,008 | 5,653,709 | | 1,367,299 |
| 1846 to 1850 inclusive | £ | £ | £ | |
| 1846 | 1,151,790 | 2,000 | 1,149,790 | |
| 1847 | 344,886 | — | 344,886 | |
| 1848 | 585,968 | 84 | 585,884 | |
| 1849 | 388,798 | — | 388,798 | |
| 1850 | 1,310,151 | — | 1,310,151 | |
| | 3,781,593 | 2,084 | | 3,779,509 |
| 1851 to 1855 inclusive | £ | £ | £ | |
| 1851 | 2,679,864 | 600,000 | 2,079,864 | |
| 1852 | 95,928 | — | 95,928 | |
| 1853 | 3,247,474 | 3,356,383 | −108,909 | |
| 1854 | 1,284,107 | 9,954,643 | −8,670,536 | |
| 1855 | 312,960 | 5,225,907 | −4,912,947 | |
| | 7,620,333 | 19,136,933 | | −11,516,600 |
| 1856 to 1860 inclusive | £ | £ | £ | |
| 1856 | 2,203,475 | — | 2,203,475 | |
| 1857 | 10,753,582 | 92 | 10,753,490 | |
| 1858 | 2,100,000 | 456,780 | 1,643,220 | |
| 1859 | — | 4,340,000 | −4,340,000 | |
| 1860 | 3,085,931 | 3,030,904 | 55,027 | |
| | 18,142,988 | 7,827,776 | | 10,315,212 |
| 1861 to 1866 inclusive | £ | £ | £ | |
| 1861 | 2,689,588 | 80,000 | 2,609,558 | |
| 1862 | 353,671 | 252,500 | 101,171 | |
| 1863 | 4,646,319 | 30,811 | 4,615,508 | |
| 1864 | 3,354,384 | 119,000 | 3,235,384 | |
| 1865-6—6-7 | 5,982,000 | — | 5,982,000 | |
| | 17,025,932 | 482,311 | | 16,543,621 |
| | | | Total Remissions ... | 57,765,043 |

From this table it appears that the war income-tax yielding £14,000,000 was remitted in 1815, and between that and 1845 the further net reductions were £25,000,000, a total of £39,000,000 out of £57,700,000 of remissions for the whole period since 1815. The greater part of the remissions besides took place before 1835—only about £1,500,000 being due to the decade between 1835 and 1845. A good many of the subsequent reductions again—about £6,000,000—took place before 1853: the enormous sum of £27,000,000 remitted since 1856 falling to be diminished by the heavy taxes imposed in 1854 and 1855, so that the net remissions since 1853, during the last and most prosperous years of our finance, only amount to about £13,000,000 of the total £57,700,000. We subjoin separate tables showing what has been done since 1846:—

*Taxes imposed and remitted from* 1846 *to* 1853 *inclusive.*

| | Remitted. | Imposed. |
|---|---|---|
| | £ | £ |
| 1846 | 1,151,790 | 2,000 |
| 1847 | 344,886 | — |
| 1848 | 585,968 | — |
| 1849 | 388,798 | — |
| 1850 | 1,310,151 | — |
| 1851 | 2,679,864 | 600,000 |
| 1852 | 95,928 | — |
| 1853 | 3,247,474 | 3,356,383 |
| | 9,804,859 | 3,958,467 |

| | |
|---|---|
| Total remissions ... ... ... ... ... | £9,804,859 |
| ,, new taxes ... ... ... ... ... | 3,958,467 |
| Net remissions from 1846 to 1853 ... | £5,846,392 |

*Taxes imposed and remitted from* 1854 *to* 1866-7 *inclusive.*

| | Remitted. | Imposed. |
|---|---|---|
| | £ | £ |
| 1854 | 1,284,107 | 9,954,643 |
| 1855 | 312,960 | 5,225,907 |
| 1856 | 2,203,475 | — |
| 1857 | 10,753,582 | 92 |
| 1858 | 2,100,000 | 456,780 |
| 1859 | — | 4,340,000 |
| 1860 | 3,085,931 | 3,030,904 |
| 1861 | 2,689,558 | 80,000 |
| 1862 | 353,671 | 252,500 |
| 1863 | 4,646,319 | 30,811 |
| 1864 | 3,354,384 | 119,000 |
| 1865-6 | 5,420,000 | — |
| 1866-7 | 562,000 | — |
| | 36,765,987 | 23,490,637 |

| | |
|---|---|
| Total remissions ... ... ... ... ... | £36,765,987 |
| ,, new taxes ... ... ... ... ... | 23,490,637 |
| Net remissions from 1854 to 1866-7 ... | £13,275,350 |

On the whole, looking to the fact that more than one-half of the remissions took place before 1835, and four-sevenths before 1845, by which time the country was only one-half more prosperous than in 1815, and to the fact that so much of the subsequent remissions took place in the years immediately succeeding 1845, it seems fair to assume that our present revenue is raised from less than one-third of the taxes pressing on the country fifty years ago. In other words, we may assume that the produce of the remitted taxes would, one with another, be three times the total amount, but say £150,000,000—three times £50,000,000 only—so as not to overshoot the mark. This conclusion

quite corresponds with the other facts as to the progress of the national wealth, the trebling of which has taken place principally since 1845, when the bulk of the taxes had been taken off. The sum of £150,000,000 sterling added to the present revenue would give a total of £220,000,000, which could be raised as easily as £70,000,000 half a century ago. It is most probable, however, that the pressure would not be as great as the burden on our ancestors. Our estimate is rather under the mark; and, besides, the art of taxation—the art of distributing taxes so as to yield a large return at little expense and in the least galling manner to the taxpayer—is better understood now. As to the taxation at the close of the war again, although opinions differ, Mr. McCulloch and others have held that it did not throw back the country in material progress, or impoverish the people, so that the levy of £220,000,000 now represents an effort it would be possible to make without diminishing our present prosperity.

The fair inference from this comparison between our present burdens and those our ancestors have borne is that by making no sacrifice for a great national object, such as paying off the National Debt, we are as a nation somewhat basely skulking our obligations. Our ancestors wisely or unwisely became involved in a war which was converted into a terrible struggle for existence, and bravely did their part. It seems a small thing that in these piping times of peace we should clear away the burden which they fairly threw upon the future, and prepare for our posterity the opportunity of making sacrifices of a different nature—perhaps give them the essential means of carrying on another struggle without overwhelming the country by what would be an additional, but ought only to be a new, debt. There is obviously no urgent necessity to restore the war burdens

of fifty years ago, by which at no greater sacrifice than the Americans are at present making, we could pay off our debt in four or five years. But short of reimposing these war burdens, which would yield £220,000,000, a great deal could be done. The enormous difference between that sum and the existing revenue is almost positive proof that a good deal of what the tax-gatherer leaves in the pockets of the people is simply wasted. A little turn of the financial screw would diminish in no degree the annual savings of capital, though it might to an imperceptible extent diminish the consumption and perhaps the enjoyments of the people. It is when compared with our ability that the schemes we have referred to look so small. They put off for two or three generations the performance of part of a task which the present generation has the means of wholly doing itself. They are small even compared with the scale of reduction which has been going on for the last fifty years. According to the details given by Mr. Gladstone in his last budget speech, the capital sum of the debt in 1815 was £902,264,000, and the annual charge we may add was £31,576,000. The capital sum of the debt at the beginning of the present financial year, as stated by Mr. Gladstone in the same speech, was £799,000,000, a reduction of £103,000,000 since 1815; while the annual charge, including a small additional sum for the payment of terminable annuities, was only £26,140,000, a reduction of £5,436,000 on the annual burden—greater in proportion than the reduction in the capital sum of the debt. We may have no opportunity of reducing the annual charge, but at this rate, as regards the capital sum, assuming that the country is no more than three times richer to start from than in 1815, we ought in fifty years hence to have reduced the debt by £300,000,000 —that is, three times the amount of the reduction in the last

fifty years. This beats any of the proposals we have quoted, but it does not follow that we should limit our future reductions to this extent. While our absolute wealth has increased greatly, our relative ability to pay must have augmented in a higher ratio. Much of what was done in the last fifty years was done out of comparative poverty, and as we grow wealthier the payments are more and more out of our superfluity.

There is another fact in our present financial condition which shows the ease with which the debt may be attacked, while it indicates, perhaps, the most appropriate mode in which the attack may be made. We should prefer a "little turn of the financial screw" merely for the principle of the thing; but even no turn of the screw at all, only a resolute determination to have no more remissions, would make an enormous difference. The important fact is the rapid growth of the revenue, which, in a series of years, may be as safely counted on as an average harvest. Mr. Gladstone, in his last budget speech, asserted that one year with another the revenue increases at the rate of £1,780,000 annually. It is not unlikely that, according to his practice, Mr. Gladstone rather under-estimated. At any rate, to take the six years from 1860, according to a Parliamentary return which corresponds with the figures we have given above, the net reductions effected, excluding those of the present year, amounted to no less a sum than £16,250,000. In these six years, however, the revenue only fell, in round numbers, from £71,000,000 in 1860 to £67,800,000, which is a loss of £3,200,000. In other words, while we have remitted £16,000,000 of taxes, we have only lost £3,000,000, and the difference—£13,000,000—which we have recovered represents a growth of over £2,000,000 per annum. It may be objected that there is always an extra recovery in what is left of

a diminished tax, but against this we may fairly set the fact that every reduction diminishes the area on which increase takes place, and that some of the remissions have been total abolitions of certain taxes. Assuming then that this rate of growth continues, and that there are no reductions meanwhile, what will be the result to the revenue? Why, in five years hence, counting only £2,000,000 per annum as the growth, instead of raising £68,000,000, we shall be raising £78,000,000 yearly; and five years after, or ten years hence, the revenue will have reached the enormous total of £88,000,000.* With such a growth of revenue, how long would it take to extinguish the national debt, if we keep our expenditure at the present rate? The answer is that in the first ten years we shall have paid off £110,000,000, not including any additional sums which will be at our disposal from year to year, on account of the diminishing annual burden of the debt, although the payment at par of £110,000,000 in ten years will give us an addition of £3,300,000 to the annual surplus. In other ten years—that is, in twenty years from this—more than half the debt will have been paid off, the surplus at the end of that period being rather more then £50,000,000 a year, which would speedily wipe out the remainder of the debt. The process might be accelerated by paying off at less than par, which could probably be done to a partial extent.

The obvious objections are that there is every chance expenditure will keep pace with revenue, and that there is no security the revenue will grow. As for the growth of expenditure, however, it may be urged that there is no necessity, if we are in earnest about the debt, for taking expenditure into account. Let it be understood that every

* These figures have been fully justified by the subsequent actual growth of revenue.

increase in expenditure is to be met by new taxes till the great national object is attained, and expenditure would not interfere with the experiment. That it had to be met by new taxes would be a powerful incentive to economy. It is not the case, however, that expenditure must grow as quickly as revenue. It has hitherto kept pace with revenue, because we have been constantly remitting taxes, and so allowed its natural growth to overtake us. The case would be far otherwise if we stopped the process of remitting taxes. Taking the last twelve years, and comparing 1854 with 1866, the expenditure we find has increased from £55,600,000 to £65,400,000, about £11,000,000 in twelve years, or £916,000 per annum. Even with an expenditure growing at the rate of £916,000 per annum, we could still do a good deal to the debt with a revenue growing at the rate of £2,000,000. But that it is possible to keep the expenditure comparatively stationary is shown by the experience of the last six years. Starting from an expenditure of £69,000,000 and more in 1860, the amount in the following year being £73,000,000, we have come down to a total of about £66,000,000 or £67,000,000. We refuse then to admit as at all inevitable that expenditure in the ordinary course of things will increase greatly. But a war, it will be said, will *bouleverser* everything. No doubt it will. But there is this also to be said, that every year, so long as we avoid war, we shall be strengthening ourselves for war when it does come. If we secure peace for no more than ten years, and owe then £110,000,000 less than now, we shall have this comfort—that borrowing then £110,000,000 will only replace us exactly where we were ten years before. The capital of the debt, instead of rising at a bound to £900,000,000, would only rise to its present level. For State purposes, in short, we shall be £110,000,000 richer, the savings of the country

having meanwhile not been trenched upon to produce this result. By stopping the process of paying off debt we shall also have at once a large surplus revenue for warlike expenditure without any new taxes. The contingency of war, therefore, only strengthens the argument for trying the experiment. We have also to consider that there is a very fair chance we shall escape war till the experiment is completed. The years of peace since 1815 have only been broken by the Crimean episode, so far as we are concerned; and it does not follow that we shall be dragged into war by any one of the numerous difficulties which may arise. Difficulties have always been cropping up, yet we got off without war for forty years from 1815. Europe has been more disturbed perhaps since the Crimean episode; the danger of war is more chronic; but the acute agony of 1831 or 1848 was more likely to involve us than the present *status quo* of overgrown armaments. Reckoning up chances, we may also fairly include the chance of the Napoleonic era passing away, and with that the restoration of Parliamentary power in Europe, and a general imitation of our peaceful example.

We need say very little as to the other objection we recognise as obvious—the chances of our revenue not growing. Of course, if it does not grow the debt will not be paid off in the way suggested; but we submit that the chances are so great the experiment may be worth trying. It is the general opinion, we believe, among statisticians and economists, those who have studied the material progress of the world since the invention of the steam-engine, that the prosperity of this country and of the world will continue, and at an accelerated rate. The multiplication of machinery becomes yearly more and more rapid, and the material resources in the course of development are comparatively untouched. The markets for our manufactures are increasing indefinitely.

Even in the fact that our capitalists are sending capital abroad, investing it in great undertakings in all parts of the world, supposed by some to indicate the slipping away of our own trade, there is no real danger for our prosperity. It is merely evidence that as the world gets more knit together capital is becoming cosmopolitan. The effect of our capital going abroad is only to lay the whole world under contribution to the British Exchequer. There is not a country in the world which does not already yield its quota of profit, assessable to the income-tax of the United Kingdom. Again, the arguments of those who expect the exhaustion of our coal proceed on the supposition that our industry and prosperity will maintain their past rates of progression. Our only fear is of the argument which has been employed, that if we are to be so much wealthier in future, we may postpone till then all thought of the debt. The answer to such an argument is that immediate effort is certainly the safest course; we cannot foretell what necessities may be imposed on the future.

It is not a large sacrifice we have suggested. Only the stoppage of our past indulgences in the way of remissions of taxation—perhaps the imposition of a trifling tax or two, say the addition of a penny or twopence to the income-tax —if additional expenditure becomes imperatively necessary. Will the desire which has sprung up for reducing the debt stand this slight test? Is it genuine, like the charity of the Quaker who felt for a poor man five pounds, and asked his neighbours, who were expending sentiment profusely, how much they felt? Perhaps some prominent financier in Parliament will very soon apply the test, with what success remains to be seen.

## XII.

## THE TAXATION AND REPRESENTATION OF IRELAND.*

The House of Commons was occupied on Monday and Tuesday with two subjects which are not at first sight connected, but between which a real connection of some interest may in our opinion be established. We refer to the debate on Monday on the alleged disproportionate taxation of Ireland, and to the debate on Tuesday on Mr. Trevelyan's motion as to the electoral system as far as the question of redistributing seats is concerned. These two debates suggest to us that whatever difficulties there may be about a redistribution of seats within each particular division of the United Kingdom, there can be little question of the expediency of a redistribution of seats between these divisions themselves. The Irish members complain that Ireland is unduly taxed, but England and Scotland may complain that Ireland is unduly represented, and use in support of their complaint the very arguments as to taxation in Ireland which Irish members employ to prove that Ireland should pay less to the Imperial Exchequer. There ought clearly to be some proportion between the representation of different communities in a common Parliament and the wealth and population of these communities; there is an unstable political equilibrium wherever the poorer and weaker communities have a disproportionate share in dictating the general policy, and so voting the burdens which their richer and stronger associates have

* Written and published as an article of the *Economist* in 1876.

to bear; and as Ireland now has, and has always had, a larger representation in the Imperial Parliament than the proportion of the taxes it paid would give it, the argument that it should pay a still less *a fortiori* implies that it should also be less represented. Until lately this argument was partly counterbalanced by the large proportion of the population of Ireland to that of Great Britain, but year by year the claim of Ireland on this ground has become weaker, till now it has no existence.

The facts can be stated very shortly. Ireland sends to the Imperial Parliament 105 members out of 658, or almost exactly 16 per cent., as compared with 553 members, or 84 per cent., representing Great Britain. As regards taxation, therefore, assuming an exact proportion between it and representation, Ireland would not be unjustly burdened if it contributed 16 per cent. of the Imperial revenue. But its contributions in 1874-5, the last year mentioned in the return obtained by Mr. Mitchell-Henry for the purpose of the debate, were only in the proportion of 10·6 per cent. Of a total of £74,986,397, which was the revenue of 1874-5, Great Britain and Ireland contributed as follows:—

| | £ | Per Cent. of Total. |
|---|---|---|
| Great Britain ..... | 67,016,346 | .... 89·4 |
| Ireland ..... | 7,970,051 | .... 10·6 |
| Total ..... | 74,986,387 | .... 100·0 |

The inhabitants of Great Britain may surely ask with some fairness that there shall be no complaints of Irish taxation until Ireland pays taxes in some more exact proportion to the number of representatives it has—that is, 16 per cent., instead of 10·6 per cent., of the total Imperial revenue. If it did so its contribution would have been in 1874-5, not £7,970,000, but £11,998,000, or 50 per cent. more.

We fear it would be hopeless to tax Ireland in proportion to its present representation, but the inequality could be redressed by reducing the representation. In that case Ireland would only elect 10·6 per cent. of the members of Parliament, instead of 16 per cent., or 70 members instead of 105. And matters would be still worse for Ireland in this respect if the Irish members had their way, and Irish taxation were reduced as they say it should be. Great Britain, we are told, would pay £200,000,000 if it were taxed as Ireland is. In other words, Great Britain is affirmed to be twenty-five times richer than Ireland. But if representation were to be adjusted accordingly, Ireland would only elect 1-25th of the members of the Imperial Parliament, or 26 instead of 105. As far as it goes, this argument for diminished taxation is also an argument for enormously diminished representation.

We come then to the facts as to the relative population of Ireland and Great Britain, on which the claim of Ireland to a larger representation than one in proportion to the share of taxes it pays may be based. At the time of the Union, and for many years after, it was certainly intelligible that the magnitude of the population of Ireland should be a set-off to its poverty in a question of representation in a common Parliament with Great Britain. In 1821, which is the first year for which we have good data, the population of Great Britain and Ireland were respectively :—

| | Numbers. | Per Cent. of Total. |
|---|---|---|
| Great Britain..... | 14,391,631 | ..... 67 9 |
| Ireland ..... | 6.801,827 | ..... 32·1 |
| Total ..... | 21,193,458 | ..... 100·0 |

In other words, Ireland was about a third of the United Kingdom as respects population, and in consequence its claim

to have a larger share of representation than the proportion of its wealth and taxation to that of Great Britain would have given it had some foundation. Ireland with such relative numbers, whatever their condition, was a large unit to which much less than a sixth of the representation could not reasonably have been assigned. And this proportion continued during the two following census periods. In 1831 and 1841 the proportions of Great Britain and Ireland in the total population of the United Kingdom were :—

| | | Great Britain | | Ireland | |
|---|---|---|---|---|---|
| Year. | Total Population. | Numbers. | Per Cent. of Total. | Numbers. | Per Cent. of Total. |
| 1831..... | 24,306,719 ... | 16,531,318 ... | 68·1 ... | 7,767,401 ... | 31·9 |
| 1841..... | 26,916,991 ... | 18,720,394 ... | 69·6 ... | 8,196,597 ... | 30·4 |

But since 1841 a great change has taken place. The following twenty years were the period of the Irish exodus, and although of late the population of Ireland has remained stationary, or has only diminished very slowly, the stationariness has been coincident with a rapid increase in the population of Great Britain, which is constantly altering the proportion. The effect is seen if we compare the population for the last three census years, and also for 1875. The figures are :—

*Population of Ireland and Great Britain compared at various Dates since* 1851.

| | | Great Britain | | Ireland | |
|---|---|---|---|---|---|
| Year. | Total Population. | Numbers. | Per Cent. of Total. | Numbers. | Per Cent. of Total. |
| 1851*..... | 27,435,000 ... | 20,883,000 ... | 76 2 ... | 6,552,000 ... | 23 8 |
| 1861 ..... | 28,974,362 ... | 23,185,947 ... | 80·0 ... | 5,788,415 ... | 20 0 |
| 1871 ..... | 31,513,442 ... | 26,126,734 ... | 82·9 ... | 5,386,708 ... | 17·1 |
| 1875 ..... | 32,737,405 ... | 27,439,673 ... | 83·9 ... | 5,297,732 ... | 16·1 |

Thus the proportion of the population of Ireland, which

* Part estimated for Scotland.

was thirty per cent. of that of the United Kingdom as late as 1841, had fallen in 1851 to 23·8 per cent., and in 1871 to 17·1 per cent. only, while since the latter year it has gradually come to be still lower, or 16·1 per cent. It is thus quite manifest that Ireland has lost the claim it once had, on the score of its great population, to a larger share of representation than its wealth and taxation would give it. If existing taxation were to be the test, the argument for reducing the representation of Ireland in the Imperial Parliament from 105 members to 70, which is the proportion existing taxation would give it, as we have above seen, and for proportionally raising the representation of Great Britain, would now be irresistible.

We are not using these arguments in a controversial spirit, and as a *tu quoque* to the Irish members in their demand for lessened taxation. The excessive representation of Ireland in the Imperial Parliament is a substantial mischief to the whole United Kingdom. It gives undue influence to one of the elements in the Union the least in harmony with those which really preponderate, and consequently impedes and thwarts the naturally stronger forces of the nation in their development. On Ireland itself the effect is most pernicious, because the scale of Irish affairs is artificially altered from the natural one. Because Ireland has such tremendous power to force its affairs on Imperial notice, the Irish people are encouraged in the belief that their local affairs really compare in importance with those of Great Britain, whereas Ireland is now only a fragment, and relatively a diminishing fragment, of the State in which it is absorbed, and whose fortunes more and more it must inevitably share. Even for obtaining attention to peculiar legislation for Ireland a smaller number of representatives would be better than the present, because their weakness on the one hand would tend

to unite them and give them strength for all reasonable ends, while diminishing on the other hand the natural distrust of Ireland and Irish members in Great Britain, which is certainly stimulated at present by the artificial weight of the Irish vote. We are not much in favour of electoral changes so soon after the Reform Act of 1867, but a reduction of the Irish representation, and an increase of that of Great Britain, constitute a question apart which should be dealt with at no distant date.

# XIII.

## THE CASE AGAINST BIMETALLISM.

THE fall of silver during the last few years has produced a large crop of that dismal currency literature which has brought almost all writing on currency into disrepute. The distinguishing feature of this literature is the constant assumption that some small defect in a currency which has all the recognised essentials of a good money—a basis in one or other of the precious metals, identity of the standard coins with a certain weight of that metal, and security for free coinage with only a small seignorage, or with no seignorage at all—may be productive of monstrous evils; or that a small manipulation of the currency, even at the risk of violating one of the essentials, may have some vague and indefinite advantage. It would be useless to enumerate the various schemes, of which the most prominent has perhaps been the proposal generally known as Colonel Smith's, to raise or restore the rupee coinage of India to a level in value with gold. They are sufficiently answered by the common sense of the monetary world, which demands, in this question, merely that a Government should authorise a coinage having the essentials above described, arrange for the coins being legal tender and receivable in taxes, and for the rest leave the matter alone. But there is one theory or system which has to a certain extent commanded more respectful attention than the others, viz., the theory which is

known by the name of bimetallism. In its best form this theory is not open to the charge of artificiality, and of being inconsistent with free mintage, to the degree that some of the other schemes are open to the charge. The idea is that a State, instead of having the basis of its money in one of the precious metals only, should declare money obligations to be solvable by either of the two metals, silver and gold, in prescribed quantities, still permitting free coinage. The theory, therefore, has gained adherence even from people who have little enough sympathy with the way in which currency writers exaggerate the possible evils of slight derangements in the currency, and look for impossible advantages from currency changes. I wish, then, to put together some observations on this bimetallist question, and account, if possible, for the dislike of bimetallic theories which is entertained as a rule by those who have carefully studied the English monetary system. Bimetallists are often treated, like other currency prophets, as inventing or grossly exaggerating the evils produced by the choice of monometallic systems in preference to theirs, and as aiming at benefits which cannot possibly be derived from any currency change. Is there real cause for this dislike or for the contumelious treatment which bimetallist advocates, who comprise among their number not a few men of real eminence as economists and statisticians, not infrequently receive?

It will be expedient to begin with a short account of the bimetallist arguments. Up to a certain point monometallists and bimetallists—at least the more able of the latter—are really agreed. They hold to the common-sense doctrine of currency already referred to—that it is not an arbitrary thing to be regulated at will, but that a Government fulfils its duty in selecting one or two of the metals as money, receiving all that is brought to them, impressing upon them certain

stamps denoting their weight and fineness, and declaring them receivable for taxes, if not legal tender in release of all obligations expressed in money. Where they part company is on the point whether a Government should have one metal only, or two or more metals, for its standard. Monometallists affirm that there should only be one, and even that there *can* only be one; bimetallists that there may be two, the law establishing the indifferent employment of certain prescribed quantities of one or the other, and that it is desirable two and not one should be so used. In support of the view, bimetallists maintain that legalising the use of both metals as a standard will procure certain advantages which are not procurable with one metal only. Such a regulation, it is said, would have the effect, first of all, of keeping more money in use than would otherwise be the case. Money would be more abundant than with one metal only, and abundant money is good for trade.* It is no doubt admitted now that unless all Governments and communities have the same money regulations, the legalisation of the use of both metals will not have the effect of keeping both in use at one time in a particular State. On the contrary, the debtor will always pay in the metal which it is easiest for him to obtain; a very slight fraction of difference in procuring the prescribed quantity of the one, as compared with the prescribed quantity of the other, will drive the dearer metal out of use. But any inconvenience arising from this alteration, it is said, is amply compensated for by the greater abundance of money generally

* See Wolowski's "L'Or et l'Argent," pp. 331-2, where M. Wolowski quotes Count Daru's argument for the famous law of 1803, giving France the system of bimetallic money, which it retained till within the last few years. Daru says: "En réduisant l'or à n'être qu'une marchandise, on diminuerait la masse du numéraire, on gênerait le commerce," &c., &c. And this language is still of the essence of the bimetallist argument.

in which all countries participate.* Another alleged superiority in the use of the two metals as compared with the use of one only, is the increased facility of exchange between different countries. The legal ratio of use, it is said, tends in fact to keep the metals nearly at the corresponding relative value, so that exchanges between countries not bimetallic themselves, but some of them having gold and others having silver, became almost as steady, through the help of the bimetallic regulations of other countries, as if only one metal were universally in use. This facility would be enhanced by several nations becoming bimetallic, and still more by all nations adopting that system. This is the general theory of bimetallism, and it is supported by practical arguments from present circumstances. The depression of trade of the last few years is by some held to be accounted for by the scarcity of money due to the demonetisation of silver, and greater pressure upon gold; and by the confusion introduced into the exchanges by France (which has played the *rôle* of intermediary between gold and silver countries during the present century) abandoning its bimetallic regulations. By others who do not go so far, the actual evils of the last few years, especially through the derangement of the exchanges, are said to be so great as to require a special remedy such as bimetallism would give. Finally, it is held by some ardent enthusiasts in the cause that there is a providence in the matter; that not only have two metals adapted for use as money been provided, but that a certain ratio—viz., $15\frac{1}{2}$ to 1—tends

* This is the modern account of the argument. But, so far as I can judge, the authors of the French bimetallist law, as of former bimetallic experiments, really hoped to retain both gold and silver in use in their own country. They thought they had found a ratio from which the metals would not vary for a long period, and in the original draft of the law a revisal of the ratio was contemplated. See Wolowski, "L'Or et l'Argent," p. 295.

naturally to be established between them. A bimetallic law fixing this ratio of $15\frac{1}{2}$ to 1 merely confirms an ordinance of nature! Such is a fair account, I believe, of the bimetallic argument, and the last point in it, I may observe, is not inserted by way of caricature, but in order not to leave out any principal argument on which leading bimetallists lay stress.

What we have to inquire into, then, are the objections of monometallists to this argument. Is there any real foundation for the superiority to monometallism alleged? and are there no counter-considerations? How far is bimetallism even a practicable scheme? I would begin by saying that the whole onus of proof is on bimetallism. Not only is the opposite system installed, but that system has the merit of simplicity. No one can say that if only one metal had been in existence suitable for use as standard money, the world would have been badly off because there were not two. The controversy is also a comparatively modern one. What Governments had to debate before the present century was not any real choice between one and several metals for use as standard money, but how to get a sound metallic currency of any sort. Their difficulties were the temptation to make a profit for themselves at the expense of their subjects by debasing the coin or "raising its denomination" (which comes to the same thing), and the natural difficulty of keeping the bullion contents of a coinage up to the nominal value assigned to it. It is only since 1696 in England, and since the beginning of the present century elsewhere, that Governments have learnt the wisdom of resisting the temptation to debase—if even yet the lesson has been perfectly learnt; and the effectual method of meeting the difficulty caused by wear and tear is of equally recent discovery. The alleged advantages of bimetallism therefore are supple-

mentary only to the primary advantages aimed at by a good currency. A people afflicted with debased coins, whether the debasement was due to natural or artificial causes, would plainly be only too glad to get a good metallic currency of any sort. This of itself is almost enough to prove that there is a fundamental exaggeration in the bimetallist argument. Why is there so much importance attached to matters which could not have been thought of when nations were struggling with the real difficulties of coinage?

Even when these real difficulties existed, it may be remarked, though the social misery and nuisance were intolerable, and there was some hindrance to trade, it was possible for countries to make great advances in material prosperity. Speaking of the seventeenth century, when, as we shall see, the country was afflicted with debased and constantly changing coinage, and when there was besides a long period of civil war and confusion, Lord Liverpool, who was above all statesmen alive to the evils of a bad currency, remarks: "It is certain, however, that during the whole of this period, when our coins were in so great a state of confusion, the commerce of the kingdom was progressively improving, and the balance of trade was almost always in favour of this country."* It seems impossible, therefore, that bimetallic money can be so necessary to the world as is alleged, when countries got on so well as they did with money so inferior, that the question between bimetallism and monometallism could not arise, attention being absorbed in more serious matters.

But let us examine directly what the argument comes to. One of the two points of superiority alleged may, I think, be passed over as hardly counting, or rather as counting

* Lord Liverpool on the "Coins of the Realm," p. 120.

against those who use it as an argument for bimetallism. This is the allegation that bimetallism increases the quantity of money in use as compared with the opposite system. It cannot be true that it will have that advantage necessarily—that is, if there is any advantage in the matter. Clearly as much gold and silver may be in use as money throughout the world, if some nations have gold and others silver, as if some or all were bimetallic. The quantity of money in use might be diminished by all nations becoming monometallic, and using the same metal; and were this to be done suddenly, great evils might ensue. I believe evil has ensued from the haste to introduce gold in place of silver in some countries, which prevailed ten or fifteen years ago under the influence of eager advocates of a universal gold money. But this diminution of the money in use is obviously not a necessary consequence of monometallism. It would be rather the result of an injudicious application of the principle which the nations of the world are not now likely to be guilty of.

And the argument turns against bimetallists in this way, that by attaching such great importance to keeping money abundant, they ally themselves with the most vicious of currency theorists. It is not true that the quantity of money, apart from the possibly mischievous effects of any sudden change, socially and otherwise, can affect materially the real wealth and welfare of an industrial community. It is a mere truism to say that while it may be useful to the world for other purposes to have gold and silver more easily obtained than they are, yet, so far as their use as money is concerned, they would be equally serviceable if they were only half as abundant. The bimetallist argument is accordingly tainted, and this accounts very much, I believe, for the extreme disgust and dislike of the theory which

economists and statesmen have shown. The prophets who prophesy that the world is to be enriched by abundant money are the detestation of men of sense.

Has not the scarcity and appreciation of gold, it may be rejoined, something to do with the present depression of trade? To this I would reply that the depression is mainly traceable to many other well-known causes of such phenomena, so that the scarcity of gold can only have been a contributory cause. In any case, moreover, the temporary effects of a change in the supply or demand for a particular kind of money, causing a general change in the level of prices, are not to be confounded with the permanent effects of scarce or abundant money. At the new level of prices established, the scarcity and abundance of money may become what they were before. However much, therefore, the scarcity of gold may have contributed to the recent fall of prices, and through that to the depression of trade, it does not follow that the effect will be continued, or that trade will be permanently contracted. A less number of gold and silver pieces at low prices will serve for the same exchanges as a larger number at higher prices. It may be added that it was never proposed by the great English writers on currency—Locke, Harris, Lord Liverpool—to prevent the fluctuations of one of the precious metals in reference to itself at different periods. If other fluctuations were got rid of, those in the metal itself were not reckoned as of great importance, while they were considered to be inevitable. It may be said, perhaps, that abundant money is of more consequence now than it was a century or two ago, because the effect of any given quantity of money is now multiplied by our system of credit. But I fail to see how the constitution of our system of credit makes any difference adverse to the conclusion of Lord Liverpool and the old authorities.

Rather we have now a constant demonstration that moderate changes in the quantity of money in use, unless they are suddenly made, are not material. In consequence of changes in credit alone, the serviceableness of the same quantity of money varies indefinitely in comparatively short periods; the scale of prices is in constant oscillation; no conceivable changes in the quantity of money itself could at all have the effects which are constantly being produced by changes in credit alone.

To come to the other alleged superiority of bimetallism, the facility of exchange, we find there is again a good deal of exaggeration. The benefits of great facility of exchange may themselves be readily exaggerated. We may look only how trade has been carried on with inconvertible paper countries, and with enormous fluctuations in exchange. The fluctuations are no doubt an evil, and a serious one, but in a question of the relative advantages of two systems of money, we must see exactly how great the evil is. Even serious evils may have to be endured, because relatively they are unimportant compared with the great objects proposed in a sound currency. Moreover, the question of exchanges concerns only the foreign trade of the countries affected, that trade being at most a fraction of their whole trade. Whatever injury great fluctuations of exchange may inflict, they can only do so by hindering the development of a part of the whole trade of a country—even in this country perhaps only a sixth or an eighth part of its trade. Naturally, and in the long run too, it results from the nature of gold and silver as money, and the magnitude of the stocks in existence, that exchanges between countries using gold and silver will be steady without bimetallism. There may be rapid fluctuations at particular periods, as there have been lately, and as there were in 1850, when great changes in the supply of particular

metals and in the demand for them occur. But such great changes, unless all nations lose their senses, are not likely to be of frequent occurrence, and in ordinary times exchange will be steady. The reason is that as neither gold nor silver is likely to change greatly with reference to commodities in general, this being the cause of their selection for use as money, they are not likely to change with reference to each other. Accordingly we find that in past times, without bimetallism, exchanges have been steady for long periods together. I would refer especially to the course of exchange between France and England from about 1820 to 1850. During all that period France was practically a silver-using country. Silver being cheaper than the legal rate, and tending to become cheaper still, had expelled gold from circulation, till, in 1848, the Bank of France had hardly any gold left in its till. French bimetallism, therefore, could not have prevented a further fall in silver. "Ten years ago," says M. Leon Faucher, writing in 1852, "every one was frightened at the prospect of the depreciation of silver." But notwithstanding this inoperativeness of bimetallism, the price of silver and rate of exchange between France and England remained almost as steady as they have done since, although bimetallism afterwards came into operation through gold becoming cheaper than the legal ratio fixed, and the bimetallic countries having a great quantity of silver to be exchanged for it. Thus fluctuations in exchange are neither so formidable to trade as they are frequently represented, nor are the exchanges so likely to be unsteady as a rule without bimetallism, as its advocates have been in the fashion of maintaining.

The fluctuations with bimetallism may also be considerable. Bimetallism of some sort was the attempted practice of the world for centuries, but this did not prevent great

fluctuations in exchanges or the price of silver. Lord Liverpool, writing in 1805, says—

"The price of silver in dollars has varied in twenty-two years, that is, from the end of the year 1774 to the 31st of December, 1797, 11$\frac{11}{17}$ per cent., and even in the course of one year, that is the year 1797, no less than 9$\frac{1}{2}$ per cent. The variation in the price of silver bullion appears to have been still greater, by another account, with which I have been favoured, by the late Mr. Garbett, an eminent merchant and manufacturer at Birmingham; it there appears that the silver purchased by him, as a refiner, with bank notes, varied, according to his calculation, in the course of ten years, to 1793, more than 19$\frac{1}{4}$ per cent., and in one year only more than 13$\frac{1}{2}$ per cent."*

Apart from its bearing on the particular point in hand, this quotation may, perhaps, be useful in convincing people that great fluctuations in silver or in exchange with silver-using countries, are not so novel as they have lately been assumed to be.

What, then, is the increased steadiness of exchange which bimetallism can give? And of what advantage will it really be? The answer to the first question appears to be that, in certain circumstances, in some countries, bimetallic regulations would help to steady the exchanges. When a change in the relative value of the two metals is occurring *in the direction of making the less valuable the more valuable*, and when the bimetallic country possesses the metal which is becoming appreciated, bimetallism may help to steady the exchanges. The metal becoming cheaper pours into the country to be exchanged for the metal becoming dearer, and so the rise in the latter and fall in the former are arrested. Of this the world had a conspicuous illustration after the Australian and Californian gold discoveries. Silver, from being cheaper, became dearer than what was fixed by the legal ratio between silver and gold in France; and as France had much silver to be exchanged for gold, the rise in silver and

* Lord Liverpool on the "Coins of the Realm," p. 150.

fall in gold relatively to each other were arrested. Gold was poured into France and exchanged for silver, the process continuing for many years. More lately an opposite process was beginning, silver, as it lately fell, being sent back to France in exchange for gold, when a stop was put to the proceeding by France suspending the free mintage of silver. But it is only in such transition periods that bimetallism can have any effect. Suppose a change, not in the direction of making the cheaper metal dearer than the other, but in the direction of making it cheaper still (the chances of the one event being exactly equal to the chances of the other), bimetallism, it is plain, can have no influence of any sort. It is powerless to arrest the fall, because the bimetallic country has *already* got the cheaper metal, and has none of the metal which is becoming dearer to exchange. As already mentioned, this was precisely the case in France for many years before 1850. If silver had become abundant then as now, as there was at one time, it appears from the above-quoted statement of M. Leon Faucher, reason to think it would be, there was no gold in France to be exchanged for it to arrest the fall. It is not true, then, that bimetallism has a general effect in steadying the exchanges. A country which adopts it must expect that it will only operate in that way in certain special circumstances, and those circumstances may never occur.

It may be said, perhaps, that if many countries were bimetallic, the steadying effect would be greater. But this is clearly not the case. If all bimetallic countries had the same ratio, and the cheaper metal tended to become still cheaper, they would simply be as one country. The fact of their being many would give them no more power over the exchanges than if they were one country, and their power would be precisely that of monometallic countries.

Of course, if all countries were bimetallic, supposing that to be a possible arrangement, exchanges would be steadier, just as they would be if all were monometallic upon the same basis. So much may be granted on this head to the bimetallist argument.

But what would be the advantage of this increased steadiness of exchange? As we have seen, the exchanges in any case are likely to be fairly steady; great fluctuations, when they do occur, are not so harmful to trade as they are often supposed to be, while foreign trade, after all, is only a fraction of the business of great countries. In any case, unless there is universal bimetallism, bimetallism will only help to steady the exchanges in certain circumstances, and will have no effect in other circumstances which are just as likely to occur. Can the increase of steadiness which bimetallism may give, therefore, be worth any great price, so long as there is no universal bimetallism? Is universal bimetallism worth aiming at for the sake of mere steadiness of the exchanges? I cannot but think that, when really looked at, the alleged superiority of bimetallism in this respect, as in regard to its promise of more abundant money, amounts to very little.

But what of the great evils sustained by the Indian Government through the fluctuations of silver and the exchanges? by Anglo-Indians who receive salaries in India and have to remit in gold? and by banks, insurance companies, and others who have invested in Indian securities? Is it not desirable, to obviate these evils, that bimetallism should be made to operate as far as possible—that is, in the circumstances when it will steady the exchanges—and that there should also be universal bimetallism? To this I would reply that, so far as the Indian Government is concerned, and the Indian community generally, the evils

of the fluctuations which have occurred have been enormously exaggerated. The difficulty of the Indian Government and people, so far as it is a real one—that is, so far as the changes between silver and gold impose any additional real burden on the Indian community, which can only be if gold has appreciated — will not be affected at all by India becoming bimetallic. The Indian Government would receive silver just as they now receive it, and this would not help them with the increased real burden of their gold payments. England might help India by becoming bimetallic, and so arresting the rise in gold or fall in silver, because England has much gold to exchange for silver; but this would be gratuitously altering our monetary system for the sake of a temporary advantage to India. If gold, on the other hand, has not appreciated, and silver has really depreciated, the difficulty even of the Indian Government can only be transitory, pending the adjustment of all prices and payments in India. As to Anglo-Indians who receive salaries in silver and have to remit in gold, their case is no doubt a hard one, though to some extent the hardship is exaggerated. They are not worse off than annuitants were in this country after the gold discoveries, when all prices rose and their salaries or annuities did not. Here, again, to introduce bimetallism would be to make a permanent alteration in a monetary system to meet a temporary evil. Much the same may be said of the question of investments by banks, insurance companies, and others in silver securities. They have suffered a temporary loss at a time of great fluctuation, and at the present moment there is a difference of about three-eighths in the rate per cent. which the Indian Government has to pay on its rupee compared with its sterling loans, showing the premium which investors here charge for the additional risk of an investment

in a silver security compared with a gold security. But as the exchanges become steadier even this premium will, no doubt, diminish. It cannot be said that the flow of capital from gold to silver countries is seriously checked by the want of bimetallism.

Yet another advantage is alleged for bimetallism, viz., that the standard of value set up by it will probably be more stable from period to period than a standard of one metal only. And on the doctrine of chances it would seem there is, perhaps, some foundation for this statement. There is some probability that the chances of one metal fluctuating in value in reference to itself from period to period, will be partly compensated in a double standard system by the chances of the two metals not fluctuating in the same direction. But in this matter, it seems to me, the doctrine of chances is not a sufficient guide for action. The preponderant probability, on one side or the other, is not very great—it appears something like two to one in favour of bimetallism; whereas, for a guide to action, the probability should be so great as to amount almost to certainty. The assumption on which the doctrine of chances is appealed to is, moreover, not quite warranted. In real life, it may be assumed, nations will not be constant in their monetary arrangements. In the future, as in the past, changes of price, political aspirations, the love of imitation, and hundreds of other motives, will induce one nation to change gold for silver, or silver for gold, or to give up bimetallism for one or the other metal. The result may well be that, after a long lapse of years, the change of one metal in value in reference to itself will be no greater than the change in the combination of the two. In any case the differences over long periods in the relative stability of monometallic and bimetallic standards of value hardly seem an object worth any great concern to a State.

So much for the negative criticism of the alleged superiorities of bimetallism to the opposite system. But there is another side to the criticism. May there not be positive defects in the bimetallic proposal, which would counterbalance even greater advantages than any that seem to be promised?

As far as what may be called particular bimetallism is concerned—that is, the bimetallism of one or two countries only, as distinguished from universal bimetallism—there can be little dispute, I believe, of the existence of such great defects. For particular States to be bimetallic is, in fact, to condemn themselves to the misery and nuisance of constant alterations of the money in use. M. Wolowski argues that this is a minor matter, alleging that a country like France suffers nothing by constantly changing its money in use; but history is against him. Since he wrote, France has shown its practical fear of the consequences of bimetallism by suspending its silver coinage, and this was only in accordance with the previous experience of other countries. Lord Liverpool dwells upon this misery at certain periods in English history, as one of the reasons which decided him against a double standard. Those who have any curiosity in the matter may be referred to Lord Liverpool's treatise (p. 57 *et seq.*), but the following summary may give some idea of his argument:—

"The evils resulting from the fluctuations in the relative prices of these metals do not appear to have shown themselves in any great extent, or at least to have been the subject of general complaint, till the reign of James I. At this last period these evils were felt in a most alarming degree. . . . . In the first years of the reign of this monarch, the complaints of the exportation of the gold coin, on account of the low value at which gold was then estimated at the English Mint, compared with the value at which silver was then estimated, were great and incessant. To remedy this evil, King James raised the value of gold in his coins by successive proclamations, but he at last raised it beyond the due proportion; so that during the remainder of his reign, and the whole

of the reign of Charles I., the silver coins were in their turn exported, and a very small quantity of these last remained in circulation. The complaints of the want of silver coins were then as great as the complaints of the want of gold coins had been before. During a short period in the middle of the seventeenth century, the relative prices at which the precious metals were estimated at the Mint in our coins, appear to have been in a sort of equilibrium, or to have maintained a due proportion with the prices at which they respectively sold in the market. But in the fifteenth year of the reign of Charles II., that is, in the year 1663, when a new estimate was made of the relative value of gold to silver at the English Mint, that of gold was underrated. . . . . A general coinage took place by the advice of Parliament in the reign of King William III. After this recoinage the gold coins passed in payment at a higher value than that at which they were still rated in the Mint indentures, or than the relative value of gold to silver at the time would justify; not, however, by authority of Government, but by the general consent of the people. The consequence was that the new silver coins began immediately to be melted down and exported, notwithstanding the very great charge which the public had incurred in recoining them. A very considerable part, in the course of not more than seventeen years, had disappeared, and there was found to be a want of them in circulation. The same deficiency in the number, as well as the weight of the silver coins, has remained to the present day, to the great inconvenience of your Majesty's people. From the beginning of the reign of James I. to the period of which I am now speaking, gold and silver coins were alternately exported, for the reasons just stated, to the great detriment of the public, as often as individuals could profit thereby." *

These were the practical reasons given at the beginning of this century for adopting a single rather than a double standard, and the mere statement, confirmed as it has been by the subsequent experience of France, is enough. No country will endure the misery and nuisance of the incessant change, and M. Wolowski's allegation to the contrary is singularly unfortunate. In England especially there is a special reason against the alternation in its expense. There is no seignorage on the standard coin at the English Mint, a feature of importance in our monetary system. Whether it is good or bad, it would have to be abandoned in a

* Lord Liverpool on the "Coins of the Realm," pp. 117, 118.

bimetallic system. It could not be proposed that the expense of an incessant recoinage should be thrown on the country.

To some extent the misery inflicted by these alternations appears to arise from their depriving the people of the peculiar sort of money they want, so that bimetallism really thwarts the natural inclination of communities in choosing their money. It is a procrustean rule under which the State forces, or attempts to force, an overrated metal into use, so that a country wishing to have gold may be made to take silver, and *vice versâ*. That nations have their wishes in such matters is not only proved incidentally by the continual outcries in England in the seventeenth century, but by numberless facts, such as the difficulty Germany now experiences in keeping the gold it has acquired at so much expense and disturbance to the money market, the refusal of California to take greenbacks in the American Civil War, the liking of the Americans and of almost all English-speaking communities for gold rather than silver, the difficulty of floating a note-circulation in India, the preference in Scotland and Ireland for £1 notes to sovereigns, and other phenomena of a similar kind. The most significant event of the sort, however, was perhaps that adoption of gold by England after 1696 in place of a new silver coinage by the free choice of the people without its being legal tender, described in the above quotation from Lord Liverpool. Those who talk of legislation being able to constitute a demand for money, and being all that is necessary to do so, may be referred to such facts as these. Bimetallism, proceeding on the same assumption, also stands condemned by the facts.

It may be urged that now it cannot matter to a nation which metal it employs for a standard, because the real standard is now bullion only, and all the coins in use are

substantially token coins, used only for small change, whether they are of gold or silver. Mr. Lowe's scheme, as described in the *Fortnightly Review* of last month,* also assumed that standard coins of gold could be dispensed with. But it may be doubted if, even in England, we have yet got to the stage of wholly dispensing with coins in use of the standard metal. For travelling, and for settling minor balances between countries, gold coins and not gold bullion only are still useful, as silver coins or silver bullion would not be. Apart from this, the greater convenience of gold for storage and for the handling of banks and other institutions which have to deal in it, would make it naturally to be preferred by the richer countries; and, whatever may be the case here, it is quite certain that many nations are still in a state to require coins of the standard metal in use, and particularly the silver-using countries. So far as such preferences still exist, bimetallism would tend to thwart them. It would at times create in a country which naturally likes silver, a premium on the export of that metal; and at other times, in countries which preferred gold, a premium on its export. This would be obviously a daily and hourly drawback to bimetallism, if any country thinks of adopting it, to be set against the possible advantages it may confer. It will be answered that under universal bimetallism nations will be able to use whichever metal they want, and to what extent they want; but so far as they do so, and do not use both equally, bimetallism will be inoperative. If they are not to have both metals in use as standard money, they might as well be monometallist at once.

Having mentioned these drawbacks, we need not dwell on others. It is plain that bimetallism, if it does any good, will have many counterbalancing disadvantages, whether it

* July, 1879.

is particular or universal. But the catalogue is far from exhausted. For instance, the difficulty of making such subsidiary arrangements as the exemption of standard money from seignorage, now so conveniently made in a monometallic system, would soon be felt. There would also be an obvious difficulty, under particular bimetallism at least, in finding a means of bullion remittance as compared with the present system. In remitting now to a country where gold is used, any one at need can draw a cheque on his bankers and get the gold he wants. Under bimetallism he might be offered silver, and consequently have to purchase gold in the market. Under universal bimetallism the difficulty would be the same. Gold and silver *ex hypothesi* would be equally available in paying debts, but money is not wanted exclusively to pay debts with; a particular sort of money is wanted for special purposes, and all choice of this sort would be at an end. In effect, also, the use of either silver and gold in prescribed quantities in paying debts, though it avoids in appearance the fixing of a legal ratio, does fix a ratio in reality. It alters the demand for gold and silver from what it would be if communities merely selected the money they wanted according to their convenience, and *pro tanto* diverts and hinders the natural development of the industry of working the precious metals. It is not to be assumed certainly that this interference with natural taste will be more successful with gold and silver than it has been with other commodities. But passing over all this catalogue of objections, let me only urge that, as a practical measure, proposed to a country like England, bimetallism will be objectionable, because it is an alteration of a system rooted in our habits, to which we have become accustomed as the air we breathe, and which we have acquired with much cost and effort after long experience

of many bad systems. Even if the other advantages of bimetallism very much outweighed those of the opposite system—and the exact contrary is the case—would not the mere trouble of alteration be an overwhelming disadvantage? The old authorities on English currency might be invoked to bring even stronger arguments. The emphatic protests of Locke and others against *any* alteration of a standard once chosen, as necessarily involving injustice and a violation of contracts, are not to be forgotten, though it is not necessary to our argument here to dwell upon them.

Finally, it remains to be urged that bimetallism, admitting the balance of advantages to be in its favour, and that all other objections are got over, is not practicable in any proper sense of the word. Of course theoretically any particular Government adopting bimetallism, and willing to force its subjects to endure the nuisance and misery of incessant changes in their money, which always occur when bimetallism is really operative, may introduce a bimetallic law. But to have such a law is not to have the two metals actually in use, which is the object aimed at, or to obtain for a country most of the other alleged advantages of bimetallism. The advantages it procures will be for others, and sooner or later, therefore, any single country trying bimetallism will abandon it, as France has so lately done. Nations are not philanthropic to the extent of sacrificing themselves for the good of others. A group of nations trying bimetallism will experience the same results and follow the same course. The only chance for bimetallists then is the possibility of their scheme of universal bimetallism being tried. But can any one dream of such a consummation? Who is to draw the treaty? What power of persuasion will bring all countries and governments to accept this gospel? The initiative must clearly come from

the great Governments, those of England, France, Germany, Austria, Russia, and the United States. But only a dreamer could imagine such Governments agreeing on the principle, on the ratio to be fixed, and on all the subsidiary arrangements necessary; and then uniting to persuade their smaller neighbours, the dissent of almost any of whom would be fatal. So strong has this objection seemed that, for no other reason, Mr. Bagehot and other monometallists have steadily declined to discuss bimetallism. The reluctance is surely not to be wondered at. Even if there were no other difficulty in the way of universal agreement, there is one which would probably be fatal—the risk of particular countries over-issuing paper. The Latin Convention has been a practical failure as regards Italy for this reason, so that universal bimetallism to be really effective must regulate paper as well as coin issues. If it does not, the world will be no more bimetallic than it is now.

What may be urged more strongly, however, on the score of the impracticability of universal bimetallism, is the probability that great mercantile communities may have a mind of their own in the matter, and may not accept bimetallic money. It is amazing to see how the discussion is carried on, as if a Government had only to issue its fiat, and bimetallism would come into use. Enough facts have been stated in this paper to show that mercantile communities themselves exercise choice in this matter, as England did after 1696; and that bimetallic legislation would not necessarily be followed by corresponding practice. Have bimetallists then any reason to believe that England, which freely chose gold in place of silver in 1696, would now reverse its choice, now when it is so much richer and so much more a centre of international payments than it was two centuries ago? Have they reason to believe that the

Californians who rejected greenbacks would submit to take any money the Legislature chose to give them; or that the New York banks would reconsider their late decision not to accept any of the silver coins which Government had just issued as full legal tender? These and other questions must be answered in the affirmative, and with conclusive facts in support of them, before bimetallism can be talked of as a practical scheme. And no one who knows the business world of London will fancy that, as regards this country, the question would be answered in the affirmative. Leading exchange brokers and bullion dealers have bimetallist leanings; they would like if bimetallism could be introduced into any country. There is a half-notion at this moment among some merchants, especially in the Eastern trade, that as bimetallism has so much said for it, it might be tried, though it may be doubted how far this notion would stand the test of actual experiment; but so far as I can judge of City feeling in general, the attempt to force bimetallism on the mercantile and banking world of this country would produce an instant revolt. The slightest approach to "actuality" which bimetallic theories may attain, would soon bring out the real strength of the feeling or prejudice in favour of the present system which exists throughout the City.

The case against bimetallism thus appears to my mind overwhelmingly strong, and the dislike manifested towards it seems accounted for. Its boasted superiority over the single standard consists in the promise of abundant money, which it does not and cannot fulfil, and which its advocates give in a way that taints their entire argument with unsoundness; in the promise of greater steadiness in the exchanges which it will only keep in certain circumstances, while it does not really matter whether the promise is kept or not, as the

exchanges in any event will usually be fairly steady; and in the promise of greater stability in the standard of value from period to period, which it may fulfil in certain circumstances, but where, again, the alleged advantage seems really immaterial. On the other hand, whether particular or universal, the system will be attended with no small inconveniences, such as incessant change of the money in use, and interference with the natural taste of communities in the choice of their money, which have formerly caused great outcries; and in England it would have the undoubted evil of altering a long-established and excellent system, which is based on experience and has answered in every particular the ends of its designers. Bimetallism, moreover, is really impracticable. If one or two or even more nations try it, they do not succeed in getting the two metals in use, and it is not even conceivable that all should agree to try it. Moreover, whatever Governments may say, it does not follow that great mercantile communities will be obedient, and the chance of their preferring monometallism is an element of difficulty to be reckoned with. Such a scheme does not seem entitled to any favour. As founded on the assertion of vague and indefinite evils, which cannot exist in a community possessing a sound metallic currency, as promising vague and indefinite advantages, and as utterly and hopelessly impracticable, even if it should be tried, it seems really liable to all the dislike which sober business men entertain towards flighty currency projects. Matters in its favour are not mended by the talk, which I have not thought it worth while to discuss, about the ratio of $15\frac{1}{2}$ to 1 being the result of providential arrangement. If bimetallists are sometimes reviled as lunatics, and economists like Mr. Bagehot can hardly be brought to overcome their disgust at the argument for bimetallism, so as to turn aside even to discuss it, they are surely not without

excuse. Mathematicians do not stop to argue with squarers of the circle, or with reasoners that the earth is flat.

One more remark by way of supplement. A former controversy on this subject arose out of the suggestions for an international money, which were so common ten or fifteen years ago. Those who attach great importance to the world having such a money, will regret that the case against bimetallism is so strong, as it is only in such a scheme they can at present see a way to their end. To attempt to reach it by means of the opposite system implies an extensive demonetisation of one metal or the other, which is not to be thought of at present. But the idea of an international money, in the present stage of the world's economic progress, is really premature. Nations generally are not yet so closely interconnected as to make it worth while that all should have the same money, to which there are many other obstacles —such as over-issues of inconvertible paper—as well as the differences between gold and silver. We may well leave future generations, therefore, to deal with this question, content to do the best we can with the monetary arrangements in our power. As the need for international money increases, the means for introducing it may also be prepared, as they would be prepared, for instance, by the gradual introduction in all countries of the use of gold for large payments, the general use of silver in token coinage only, the increasing wealth of the world causing a great increase of the demand for token coinage, and the extension of economising expedients, so as to lighten the strain upon the dearer and standard metal. An international money upon a monometallic basis is thus a possibility of the future, and there is no need for precipitating matters by impracticable schemes.—[1879.]

# XIV.

## ON THE FALL OF PRICES OF COMMODITIES IN RECENT YEARS.*

THERE is a general agreement that during the last few years there has been a heavy fall in prices. The fall in cotton and iron, and the various manufactures of cotton and iron, is notorious, and for the rest the losses in trade, in almost every description of business, have been such as to leave no doubt of a fall in price. It is usually a fall in price which cripples the weaker borrowers, and causes bad debts, and this makes a beginning of losses by which stronger borrowers are in turn crippled, farther falls in prices ensue, and more bad debts and losses are produced. When we see so many failures as are now declared, therefore, we may be quite sure that they are preceded and accompanied by a heavy fall in prices. But the question for statisticians in such a matter is not the fact of a general fall, but whether it can be measured and compared with other facts of a similar kind, and whether there is anything to show the fall to be of a more or less permanent character, and not merely a temporary fluctuation which will be corrected by an immediate rebound; in other words, whether the average of two or three years, including the present, will or will not

* Read before the Statistical Society, 21st January, 1879. The tables referred to in the paper are not reprinted here, but will be found in the *Statistical Society's Journal* of March, 1879.

exhibit a decline when a comparison is made with a date two or three years back. Looking at the matter in this more definite way, I have come to the conclusion that not only is there a decline of prices at the present time from the high level established a few years ago, but that this decline is more serious than the downward fluctuation of prices usually exhibited in dull times, and that it may be partly of a permanent character unless some great change in the conditions of business should occur at an early date. I think this can be shown without difficulty with the help of some well-known figures which have been published lately, and which I propose to analyse and sum up, after which I shall proceed to discuss the causes of this apparently serious decline in prices, and some of the probable consequences.

## *I.—THE EXTENT OF THE FALL.*

To take the matters in the rough first: we may see what the general fall of prices has been by which the popular impression has been created. For this purpose I have made use of tables of prices of certain leading wholesale commodities which I prepared for a series of articles commencing in 1874 and continued for several years. From these tables I have extracted the prices on the 1st of January, in each year, carrying them back for the sake of comparison to the 1st of January, 1873, which was the period, as we shall see, of maximum inflation during the late prosperous period, and bringing them down to the 1st of January of the present year. The result is seen in the first table of the appendix to this paper, which certainly gives the impression of a tremendous fall, continued as regards almost every article from the time the table begins. Thus

Scotch pig iron, which is the first on the list, falls from 127s. to 107s. 6d. the following year, and then to 80s., 64s. 3d., 57s. 6d., 51s. 6d., and 43s., the fall in the end amounting to no less than 66 per cent. of the original price. In Straits tin the fall is from £142 per ton in January, 1873, to £120 the following January, and then to £94, £82, £75 10s., £66, and £61, the fall in the end amounting to 57 per cent. of the original price. To pass from the metals to the raw materials of the textile manufactures, we find the fall in cotton to be from 10d. per pound in January, 1873, to 8$\frac{1}{8}$d. in the following January, and then to 7$\frac{1}{4}$d., 7d., 6$\frac{7}{8}$d., 6$\frac{1}{2}$d., and 5$\frac{3}{8}$d., the fall in the end amounting to 46 per cent. of the original price. In wool the fall is from £23 per pack in January, 1873, to £19 15s. in January, 1874, and then to £18 5s., £17 10s., £16 10s., £15 10s., and £13, the fall in the end amounting to 43 per cent. of the original price. The fall is not quite continuous in all cases. In wheat, for instance, although the fall in the end is from 55s. 11d. to 39s. 7d. per quarter, or equal to 29 per cent. of the original price, we find the price in January, 1874, to have been higher than in January, 1873, while in 1877 and 1878 the price was nearly as high as in 1873. But in a good many instances at least there is a continuous and steady decline, and in some instances of intermediate reaction, as in the case of sugar, the recovery appears to have been for a short period only. As regards sugar itself, the price of 22s. in January, 1877, stands out isolated among the years of low price on either side. Altogether there are sufficient instances of a continuous decline, and of other instances where the intermediate recovery was very brief, to justify us in speaking of the whole table as showing not only a heavy, but for the most part a continuous, fall in the prices of commodities, which commenced in January, 1874, and has lasted to the

present time. Of course this must be on the assumption applicable to all such tables, that the articles are really representative of the wholesale markets. Short as the table is, however, I believe the articles are fairly selected, and they have at least this advantage, that they were selected in the beginning of 1874, with a view to recording current prices in a convenient and easily handled form, and have not been put together *ex post facto* for the purposes of the present paper.

To show how heavy the fall is, comparing simply January, 1873, with January, 1879, I have made up the following table:—

*Prices of Leading Wholesale Commodities in January,* 1873 *and* 1879, *compared.*

| | January, 1873. | January, 1879. | Fall in 1879. | |
|---|---|---|---|---|
| | | | Amount. | Proportion per Cent. on Price of 1873. |
| Scotch pig iron ..... per ton | 127*s.* | 43*s.* | 84*s.* | 66 |
| Coals ..... ,, | 30*s.* | 19*s.* | 11*s.* | 37 |
| Copper, Chili bars..... ,, | 91*l.* | 57*l.* | 34*l.* | 37 |
| Straits tin ..... ,, | 142*l.* | 61*l.* | 81*l.* | 57 |
| Wheat, Gazette average. per qr. | 55*s.* 11*d.* | 39*s.* 7*d.* | 16*s.* 4*d.* | 29 |
| ,, Red spring, at New York } per bshl. | $1·70 | $1·10 | $0·60* | 35 |
| Flour, town made ..... per sack | 47*s.* 6*d.* | 37*s.* | 10*s.* 6*d.* | 22 |
| ,, New York price. per brl. | $7·5 | $3·70 | $3·80* | 51 |
| Beef, inferior .....per 8 lbs. | 3*s.* 10*d.* | 2*s.* 10*d.* | 1*s.* | 26 |
| ,, prime, small ..... ,, | 5*s.* 3*d.* | 4*s.* 9*d.* | 6*d.* | 10 |
| Cotton, mid. upland ... per lb. | 10*d.* | 5⅝*d.* | 4⅝*d.* | 46 |
| Wool..... per pack | 23*l.* | 13*l.* | 10*l.* | 43 |
| Sugar, Manilla Musca... per cwt. | 21*s.* 6*d.* | 16*s.* | 5*s.* 6*d.* | 26 |
| Coffee Ceylon, good ord. ,, | 80*s.* | 65*s.* | 15*s.* | 19 |
| Pepper, black, Malabar. per lb. | 7*d.* | 4¼*d.* | 2¾*d.* | 39 |
| Saltpetre, foreign..... per cwt. | 29*s.* | 19*s.* | 10*s.* | 34 |

* The fall in the latter of these two cases appears to have been affected by the appreciation of the paper money in the United States.

A table like this speaks for itself, and fully justifies the popular impression of a great and general decline in the prices of commodities. I think it even strengthens the impression. We should hardly have suspected beforehand that prices of wholesale articles not selected with a view to make out a case, but impartially chosen years ago as representative of the markets, would exhibit a fall in the last six years, ranging from 66 per cent. in the most extreme, to 10 per cent. in the least extreme case, and ranging, with three exceptions only, between 26 and 66 per cent. So great a change would seem to make it probable both that unusual causes have been at work, and that unusual effects have been produced.

We come then to the question which we stated at the outset, viz., whether the *primâ facie* impression is correct, and the fall is anything more than what has happened before, in the change from a period of inflation to a period of depression. To help in a solution of this question, I have availed myself of a table which was drawn up and is continued annually in a well-known "Commercial History and Review," by a distinguished Member of this Society, whom it is not necessary for me to name. In this table (*see* Appendix Table II.) a certain value, 100, is assigned to each group of a considerable number of articles in respect of the average prices of these articles in the years 1845-50, the value of all of these together forming the index number 2200. The proportionate results in each year or period of years since the above date are then deduced, the sum of 100 being added to when the price has risen and subtracted from when the price has fallen, and the results for each year being added giving a new index number. The net result now is the following series of index numbers, the one for January of the present year being my own addition,

and being subject of course to the correction of the author of the table when he continues his work :—

| Date. | | Index Number. |
|---|---|---|
| 1845-50 | Average six years ... ... ... ... | 2200 |
| '57 | 1st July ... ... ... ... ... ... | 2996 |
| '58 | 1st January ... ... ... ... ... | 2612 |
| '65 | ,, ... ... ... ... ... | 3575 |
| '66 | ,, ... ... ... ... ... | 3564 |
| '67 | ,, ... ... ... ... ... | 3024 |
| '68 | ,, ... ... ... ... ... | 2682 |
| '69 | ,, ... ... ... ... ... | 2666 |
| '70 | ,, ... ... ... ... ... | 2689 |
| '71 | ,, ... ... ... ... ... | 2590 |
| '72 | ,, ... ... ... ... ... | 2835 |
| '73 | ,, ... ... ... ... ... | 2947 |
| '74 | ,, ... ... ... ... ... | 2891 |
| '75 | ,, ... ... ... ... ... | 2778 |
| '76 | ,, ... ... ... ... ... | 2711 |
| '77 | ,, ... ... ... ... ... | 2715 |
| '78 | ,, ... ... ... ... ... | 2554 |
| '79 | ,, ... ... ... ... ... | *2227* |

According to this, comparing January, 1873, with the present time, we have a change in the index numbers from 2947 to 2227, which is equal to a fall of 24 per cent. on the average. It appears, however, that between 1865 and 1871 there was a still greater fall, the change in the index number between these dates being from 3575 to 2590, or equal to 27 per cent. Great as the fall in recent years has been, therefore, it would appear that on striking an average it is more than paralleled by what happened in the immediately preceding period of depression. The explanation, I believe, is that in 1865 the index number was excessively raised by an exceptional circumstance, the great rise in cotton and cotton goods owing to the American War; but, apart from this exceptional circumstance throwing out the comparison of the former period, the recent decline is

greater than that which followed 1865. Without any such exceptional occurrence to raise prices at first, there is finally on the average, according to this table, a decline of 24 per cent. I may add, perhaps, though I should be most unwilling to criticise the construction of the table, that it seems to me to give an excessive weight to cotton and wool, and too little to the metals, while coal is altogether omitted. The result is that changes in the price of textile articles affect the table much more than they would affect a similar table into which the metals entered more largely. On the other hand, considering how textile articles enter into general consumption, the table may be more perfectly representative of general prices than if the index number were differently composed.

But while this table does not show that the recent decline of prices is without a parallel, it indicates another fact of no small importance for the present inquiry. This is, that the closing index number approaches most nearly of all to that of the average of 1845-50. That average is 2200, but in all the years named, including 1857 and 1858, and every year from 1865 inclusive, the lowest index number is higher than that for January, 1879. The lowest of the previous depressions following 1865 was 2590, but the figure now touched is 2227 only. Even therefore if the fall from the highest point of the previous inflation is now less than it was after 1865, we have still to consider that the inflation from which there is now a fall was not aggravated as that of 1865 was by a cotton famine, and that the descent is now to the lowest level of prices which appears to have been touched since 1850. In other words, we seem to have been getting back in our years of depression to the average prices of the period just before the Australian and Californian gold discoveries began to tell on the markets

of the world. This does not mean of course that prices are getting back to that average; we seem yet to be a certain way from that point; only that in our years of depression we touch a point much more nearly approaching that average than we did in the years 1868 and 1869.

Passing from these figures, I come to certain tables which were prepared last summer by my friend Mr. Arthur Ellis, one of the young Members of this Society, and who has already been a credit to us. As a supplement to the *Statist* of 9th June last, he published a long essay on the "Money Value of Food and Raw Materials," in which he compared the prices of 1859, 1869, 1873, 1876, and the first quarter of 1878, using for that purpose a new species of index number, based upon the relative amounts of articles imported, with certain additions for articles produced at home. The principal results of this procedure are exhibited in two tables, which are reprinted in the Appendix (*see* Appendix III.), and of which we have the net effect in the following short table, in the body of the article:—

| | Index Number. | Relative Cost in | | | | |
|---|---|---|---|---|---|---|
| | | 1859. | 1869. Standard. | 1873. | 1876. | 1878, First Quarter. |
| Foods ..... | 53 | 49·780 | 53·000 | 60·230 | 56 010 | 60·550 |
| Materials ... | 47 | 41·790 | 47·000 | 54·830 | 40·600 | 37·925 |
| Aggregate, as above | 100 | 91·570 | 100 000 | 115·060 | 96·610 | 98·475 |

In other words, taking 1869 as the standard, we find that in 1873 the average prices of food and raw materials according to this mode of computation had risen about 15

per cent., but in 1876 they had fallen rather more than 3 per cent. compared with 1869, and in the beginning of 1878 were 1½ per cent. below the 1869 level. Considering the great fall of prices which has occurred since these tables were prepared, they may be considered to confirm fully what has been deduced from the above figures, that there has been a fall to a lower level during the present depression that what was established after the inflation of 1865. Even at the beginning of last year prices were lower than they had been in 1869, and there has been a great and general fall of prices since the beginning of last year.

A noteworthy point in this table is the circumstance that the fall is almost exclusively in raw materials. Since the table was prepared, however, there has been a great fall in articles of food, which are now at a low level of price like other things.

I have yet another set of figures, which you will perhaps allow me to refer to before I leave this question of the extent of the fall of prices in recent years. In a report which I have lately prepared for the Board of Trade, on the prices of our exports, copies of which are just being circulated, I have first of all shown in detail the prices of the various articles of our export trade, as deduced from the declared quantities and values in each year from 1861 to 1877, and I have then endeavoured to show the average rise or fall in price, taking 1861 as the basis, by the above method of an index number, using the actual proportions of the value of the exports of each article to the whole value exported in calculating the average rise or fall of price. The result, I find, is that in the under-mentioned years, assuming 73·1 as the index number, that being the proportion of the value of the enumerated articles of export to the whole export values, the following additions or

deductions would fall to be made according to the average changes of prices as compared with 1861:—

| | |
|---|---|
| 1865 | + 22·71 |
| '73 | + 20·60 |
| '68 | + 9·99 |
| '75 | + 8·26 |
| '76 | + 1·17 |
| '77 | — 2·04 |

Here, again, without allowing for the great fall of prices in 1878, we find an indication that prices are now at a much lower level than they were after the depression of 1865. In 1868 the index number is still 9·99 above the level of 1861, but in 1877 it is already 2·04 below that level, while in 1878 there has been a fall below 1877. Curiously enough also it would again appear that in 1865 prices rose to a higher level in a time of inflation than they have since touched. The fall now is from a lower height than the fall after 1865, though a much lower depth has been reached. Of course this table only deals with exports, but in that respect it is supplementary and confirmatory of the above tables of Mr. Ellis's as to food and raw materials, which are mainly based upon the imports.

The general effect of all these figures may now be summed up. *First*, it has been shown by a general table of prices at the beginning of each year, from 1873 to 1879 inclusive, that there has been a general and remarkable fall in the prices of wholesale commodities in the period, this fall having also been to a large extent continuous, and amounting in the end, with three exceptions only, to between 26 and 66 per cent. *Second*, it would appear from a comparison of prices by means of the index number in the "Commercial History and Review," that the average fall between 1873 and 1879 is 24 per cent., and that the level of price now established is lower than anything

recorded since 1850 in the tables referred to, these tables comprising the years 1857 and 1858, and each year since 1865 inclusive; further, that although the fall between 1865 and 1871 appears greater by this index number than between 1873 and the present time, yet there is a special explanation of this, and there is reason to believe the present fall to be unusually great. *Third*, it has been shown by certain tables of Mr. Ellis's that as regard food and raw materials, prices at the beginning of 1878 were lower than in 1869, one of the years of depression following 1865, while prices are now considerably lower than at the beginning of 1878. *Fourth*, it has been shown as regards the prices of exports, that the average in 1877 was considerably lower than in 1868, while the fall to the present level was from a lower height in 1873 than the previous fall in 1868-70 from the height of 1865. Allowing for the further fall of prices in 1878, we are confirmed in the belief that prices are now unusually low, and that the facts shown by the first index number cited rather understate than overstate the change. In other words, it is ascertained, by the concurrent testimony of all the facts examined, that prices of commodities are unusually low, though one of the sets of the figures would seem to throw doubt on the idea that the fall from the height of an inflated period to the present depth is unusually great. The preponderance of evidence seems, however, to be that there is an unusual fall, although it began from a lower level than what had been established in the previous inflated period. I have not attempted, however, to measure exactly what the extra depreciation is, though I should be inclined to put it at between 10 and 20 per cent. below the prices of 1868-71. In these matters great exactness is impossible; without waiting to aim at great exactness, I have thought it

would be useful to bring the rough facts together, pending the more elatorate efforts which I trust some of our Members—perhaps Mr. Jevons—may be induced to attempt.

## *II.—THE CAUSES OF THE FALL.*

To a certain extent there is no doubt or mystery about the causes of so general a fall of price. They are the same as the often recognised causes of similar downward movements. When trade is good a state of things is created in which a downward movement of prices is sooner or later inevitable. A great stimulus has been given to production in certain favourite industries; capital has been employed in creating new establishments, or in extending fixed works and plant; labourers have flocked into the trade, attracted by the high wages; at a point the demand is found to be below the supply, the prices of the manufactured article become unremunerative, and in time the raw material and labour employed in the trade are at a discount. The fall is precipitated moreover by the inability of speculative holders of stocks to hold on in face of falling markets. At each new stage of the decline new sales become necessary, till there is apparently no limit to the fall, just as before there seemed no limit to the rise. By sympathy almost all markets come to be affected, the low prices in one market attracting capital to it, and so weakening other markets, while speculators who are hit in one department of trade seek to cover their losses by sales of some commodity or stock which has not depreciated. This is the ordinary explanation of a general fall in prices; and the only feature in the late decline it would not explain would be the long continuation of that decline, and its renewal from time to time when many circumstances appeared to combine in favour of a new upward movement.

This feature is, however, quite consistent with the usual course of a general fall of prices, though it has seldom, perhaps, been so prominently brought out as during the recent fall. In almost all markets there is constant action and reaction as well as the more general tidal movement which attracts attention when the course of prices for several years is looked at. It depends upon minor circumstances, we might almost say accidents, whether a given reaction will amount to a turn of the tide or not. If these minor circumstances are unfavourable for a time, the definite turn of prices upwards may be retarded, although the circumstances may be of a kind that when trade is stronger they would have little apparent effect. In this way it is quite possible, for instance, that the wars and rumours of wars during the last three years may have retarded the recovery in prices which is sure to come sooner or later, although trade is often brisk in time of war and amidst great political disquiet, as was the case for instance in 1870-71 during the Franco-German War. The great prolongation of the late decline, therefore, is not inconsistent with what we may expect at times when there is a general fall of prices.

We have something more to account for, however, than a general fall of prices, viz., the lower level which has been reached as compared with the last period of depression. This may be accounted for in part by the circumstance that the rise from which the present decline has taken place was not to so great a height as the rise which preceded the former decline; although a lower level has now been touched, the recent movement may be no greater; but even if we had not this explanation, or if it did not account for the entire descent which has taken place, there are not wanting special circumstances which go far to account for this great descent, as well as to account, if necessary, for that prolongation of the

decline which has been referred to. Among these circumstances I would notice *first* the extremity of the discredit in recent years, and the piecemeal way in which the failures and disclosures causing the discredit have occurred. It is difficult in such matters to compare one time with another, and probably in every time of depression there is a feeling that things were never so bad before. I recollect perfectly well after the 1866 panic the languid and despairing feeling which pervaded the City for two or three years, when there was a prolonged reign of 2 per cent., and for a time discount houses were barely paying 10s. per cent. for deposits. A famous article was written at that time in the *Edinburgh Review*, on the strike of capital, and people blamed Lord Clarendon for having made matters worse than they were ever known to be before by the explanatory circular he sent to our representatives abroad with reference to the 1866 panic. The Overend failure had also been unprecedented, and so people were satisfied that the depression was the worst. But in spite of the gloominess of affairs after 1866, it must be admitted, I think, that what came to light then was not so calculated to cause discredit as the revelations of the last three or four years. To that period belonged the Overend failure, the disclosures attending the break-up of a company mania of a not very extreme type, and some temporary difficulties of our great railway companies, whose debentures could not for a time be floated. Within the last four years, on the other hand, we have twice had commercial revelations of the most discreditable kind, viz., in 1875, when Messrs. Im Thurn and Co., Collie and Co., Sanderson and Co., and the Aberdare Iron Company all failed, besides many more, and next in the present year, when we have had such firms as Messrs. Smith, Fleming, and Co., Messrs. Heugh, Balfour, and Co., and Messrs. James Morton and Co., all

collapsing. Next, there has been perhaps the greatest financial collapse ever known, viz., that of foreign loans, which has not, so far as known, inflicted incurable wounds in the banking world as the commercial revelations have done, but which has dried up the channels of investment, and reproduced the strike of capital so strikingly written about ten years ago. Last of all, we have had banking disasters quite on the scale of 1866, including, perhaps, the most alarming, I might almost say bewildering, catastrophe ever known in banking annals, that of the City of Glasgow Bank. The spectacle of such colossal fraud, and of the danger run by investors in unlimited banks, seems calculated to create more distrust, and has, I believe, created more distrust, than the disaster of Overend's failure, great as that catastrophe was. Happily there has not been a panic during the last four or five years, although the City has more than once been on the verge of one; but, with this exception, the circumstances likely to cause discredit have altogether been stronger in the last few years than they were in and after 1866. Allowing then for the illusion which present evils are apt to create, there appears to me something in the extreme discredit of recent years to account for the fall of prices to a lower level than after 1866, although the real distress in trade may be no greater. The same result would have followed from the long continuance of discredit. If the disclosures which have been spread over three years had come all at once, say in 1875, perhaps we should have had in that year a greater panic than that of 1866, and the distress which is now being felt would have followed sooner, but the reaction might have come quicker, through the more effectual clearing of the air. It is at any rate all but certain that in 1875 itself there was a reaction upwards, which was greatly checked by the revelations of that year, although another

cause co-operated, viz., a succession of bad harvests, which I shall presently mention; and again, last year there was a general feeling that improvement had sent in, when the disturbance in the money market in the autumn, culminating in the Glasgow Bank failure, at once threw matters back. The gradual character of the failures and revelations has thus had something to do with the greatness of the fall in prices. When just sufficient time has been given for speculators to take heart, suddenly some new evil breaks out, and prices tumble, as if from an inflated level, from the lower level at which they had been fixed in the first effort at improvement.

The *second* cause I would notice as probably contributing to the severity of the fall is the bad harvests of the three years 1875, 1876, and 1877. It has long been an axiom of economists that nothing so powerfully conduces to depression in trade, and a consequent fall in prices, as a succession of bad harvests. One bad harvest among several good ones may not have much visible influence, but a succession of them is recognised as a potent cause of mischief. The usual explanation has been that the bad harvest, leading to a high price of bread, causes direct distress among the masses of consumers, that their purchases of staple manufactures fall off, that the people in the trades so affected also become poor, and so by a quick round all trades become impoverished. If a second bad harvest follows the first, and a third the second, these evil effects are aggravated, and affairs at last come to be very bad. In addition, in a country like England, which has to import more largely from abroad when its own harvests are deficient, the bad harvests tend to make the exchanges adverse, raise the value of money, diminish new investments, and so injure trade. Whatever the *modus operandi*, the bad times following on bad harvests have been too notorious for the connection to be overlooked. Now,

perhaps, we are only beginning to appreciate how bad the harvests were in this country for the three years before 1878. The fact that the great rise in the price of wheat and bread which was formerly considered the worst effect of a bad harvest, and the most powerful cause of the succeeding depression, has not been observed in recent years, helped to blind business men to the actual deficiency. But the deficiency was most serious. The wheat harvest, to begin with, was undoubtedly most deficient. According to Mr. Caird, taking the average yield of the last thirty years to be 100, the yield of 1875, 1876, and 1877 was respectively :—

1875 ... ... ... ... ... ... ... ... 78
1876 ... ... ... ... ... ... ... ... 76
1877 ... ... ... ... ... ... ... ... 74

In other words, our wheat harvest was deficient by one-fourth as compared with the average, and much more of course as compared with a good year for three years running. The usual rise in wheat and bread has not followed, owing to the very fact that the home yield is now less important than the aggregate foreign importations, but other effects of a deficient harvest must have ensued. Nor was there any compensation, as there often is in England, in the yield of grass and root crops, but the reverse. Here we cannot, measure the yield in the same way, but the diminution of the stock of cattle and sheep in the three years ending 1877 was most marked. In Great Britain the reduction in cattle was :—

| | Stock of Cattle. | Reduction on previous year. |
|---|---|---|
| 1874 ..... | 6,125,000 | — |
| '75 ..... | 6,013,000 | 112,000 |
| '76 ..... | 5,844,000 | 169,000 |
| '77 ..... | 5,698,000 | 146,000 |

—making a total reduction of 427,000 in a stock of 6,125,000, or about 7 per cent., in three years. In sheep the reduction was:—

| | Stock of Sheep. | Reduction on previous year. |
|---|---|---|
| 1874 ..... | 30.314,000 | — |
| '75 ..... | 29,167,000 | 1,147,000 |
| '76 ..... | 28,183,000 | 984,000 |
| '77 ..... | 28,161,000 | 2 ,000 |

—making a total reduction of 2,153,000 on a stock of 30,314,000, or 7 per cent., in three years, the reduction in this instance having been almost wholly in the first two years. Such a reduction clearly implies, I think, some difficulty in the farming and landowning industry owing to the diminished productiveness of the industry, although it may be in part explained by the gradual substitution of superior for inferior stock—the diminution in numbers being accompanied by an improvement in weight and quality—and in part by the substitution of permanent pasture for other crops, the permanent pasture giving a larger net but a smaller gross produce. These explanations do not cover the entire ground, and something is left which can be placed to no other account than the unproductiveness of the industry.

Now although these bad harvests have not produced the effect of raising the price of bread, which used formerly to cause so much distress and depression in trade and a fall in general prices, with the exception of bread, business men and economists have both perhaps, overlooked what the result must be of such a succession of mishaps to the greatest single industry in the country. Mr. Caird estimates the average annual value of our crops at 260 millions, and if

the gross produce has fallen off 10 per cent. for three years running, the cumulative effect on our home industry may have been very great. Instead of being able to save largely, farmers and the rural population may only have been able to save a little, and many, perhaps, have had to live on their capital, changes which would tend to weaken our whole internal trade, and diminish the fund for new investments. In actual fact, I believe it has been a characteristic of the money market since the spring of 1876, at which date the effect of the bad harvest of 1875 would begin to be felt, that the banks connected with the agricultural districts have been poorer than they were. Some have been obliged from time to time to draw upon their spare money in London, and generally they have not been transmitting to London the usual large sums they have been able to send awaiting new investment. Another consequence of the bad harvest has undoubtedly been a less favourable foreign exchange, although it was only in 1878 that this unfavourable exchange culminated in anything like a serious stringency in the money market, and that stringency was much less than bad harvests had often led to in former times, owing mainly, I believe, to the plentifulness of floating capital throughout the world, which enabled us to attract with comparative ease what temporary money we required. Still there has been a stringency which would tend directly to check trade and lower prices a little, especially when trade was only barely convalescent, and which has indirectly checked trade a great deal by precipitating banking failures, and so causing much discredit.

It will be said, perhaps, that this unfavourable exchange was the result of the excess of imports and the wasting of our foreign capital, of which we have heard so much during

the last few years. But so far as the excess of imports is due to a temporary deficiency of our harvest, I think it hardly proper language to describe the unfavourable exchange resulting as due to a waste of capital or to anything very mysterious, when it is the common and familiar, and also transitory effect of a common, familiar, and also transitory cause. Everybody allows that bad harvests make bad times, but unless bad harvests are to continue indefinitely, of which we have had no experience, this cause of mischief will soon be absent; undoubtedly it has helped to bring about the present extreme depression of prices.

A *third* cause which must be mentioned is the extraordinary demand for gold for the new coinage of Germany, and for the United States on its resumption of specie payments during the last few years. It is a little difficult to consider this point except in connection with the question of the supply of gold, and any variation in that supply which may have occurred, but what I desire to bring out is that apart from a permanent diminution of the supply, whether absolutely or in relation to the growing wants of the world, which would necessarily have a permanent effect on prices, extraordinary demands like those referred to would tend to produce a momentarily extreme fall. The reason is that a sudden pressure on the stock of the precious metals at a given period tends to disturb the money markets of the countries using them; makes money dear, or creates a steady apprehension that it may at any moment become dear; and so by weakening the speculation in commodities and making it really difficult for merchants and traders to hold the stocks they would otherwise hold, contracts business and assists a fall in prices. It is conceivable that after such a pressure the current supply of the metals may again be found sufficient to meet the current demands with

prices raised to their former level; but while the pressure lasts prices are low.

Now the extraordinary demands of the last few years—I think I may say eight years, the German lock-up having commenced in 1871—have certainly been of a kind to produce some momentary effect, even on the assumption that the supply of gold, when the pressure is removed, remains sufficient for the wants of the world with prices at their former level. Altogether during the last six years Germany has coined 84 millions of gold, very little of this being re-coinage. The accumulation of gold in the United States, again, principally during the last two years, amounts to about 30 millions sterling, the stock of gold in the country above what it had for several years previous having been increased by that amount. These two sums amount to 114 millions, and if we allow for other extraordinary demands, such as that for Holland, which has been substituting a gold for a silver money, and at the same time make deductions for what Germany may have recoined, we may say in round numbers that the extraordinary demands for gold during the last eight years have amounted to 120 millions, or 15 millions a-year. As the annual production of gold eight years ago was estimated at from 20 to 22 millions only, and has since rather fallen off, as we shall presently see, it is quite plain that these extraordinary demands can have left very little for the ordinary wants—the wear and tear of coinage, losses, use in fine arts, and new coinage to correspond with the wants of populations increasing in numbers and wealth. My own calculation in 1872, in a series of articles which I then wrote,* was that for many years previous the average requirements of the gold-using

* See above p. 82—"The Depreciation of Gold since 1848."

countries, excluding both Germany and the United States, which were not then in the list, had been 12 millions annually. But if you deduct 15 millions from 20 or 22 millions, you have much less than 12 millions left, and consequently the former state of things as regards prices could not have been maintained during these eight years. Now that the extraordinary demands are over, prices may recover, but the extraordinary demands must have contributed to the present adverse fluctuation.

These three causes then—the extreme and prolonged discredit, the bad harvests, and the extraordinary demands for gold—appear to me to have concurred in bringing prices of commodities to the lowest level which has been reached at any period for many years. That they would be sufficient to account for much of the effect which has been produced can hardly be disputed, and that they have existed is beyond all doubt.

The question is infallibly suggested, however, whether in addition there is not a subtler cause at work—an actual insufficiency of the current supply of gold for the current demands of gold-using countries. This is quite a separate question from the effect of the extraordinary demands which have been described, and it seems to me most important that we should keep it separate. It is a subject infinitely more complex and difficult to treat, and one on which even the most skilled, I believe, would venture to give an opinion with far more diffidence than on the effect of the extraordinary demands themselves.

My own opinion is that some such cause may have been at work, though whether its effects would have been at all marked as yet, in the absence of the extraordinary demands, may be doubted. The main presumptions to this effect are —*first*, the undoubted falling off of the gold supplies during

the last twenty years. It have reprinted in the Appendix (Table IV.) that portion of the table put in by Sir Hector Hay in his examination before the silver committee which relates to the production of gold, as containing, I believe, the most generally accepted estimate of what the gold production has been. The following is a summary of that able in quinquennial periods, with the annual average for each period:—

*Estimated Production of Gold in the Years* 1852-73, *in Quinquennial Periods, with several Averages for each Period.*

| Period. | Total Production. | Annual Average. |
|---|---|---|
| | £ | £ |
| 1852–56..... | 149,665,000 | 29,933,000 |
| '57–61..... | 123,165,000 | 24,633,000 |
| '62–66..... | 113,800,000 | 22,760,000 |
| '67–71..... | 108,765,000 | 21,753,000 |
| '71–75 (4 years) | 76,800,000 | 19,200,000 |

The dwindling of the supply in this table is very marked, and naturally suggests that the effect on prices of the great gold discoveries may not have been continued much beyond 1861, while lately the difference is so great that, even apart from extraordinary demands for gold, that effect may have been reversed. The difference of an annual yield of from 25 to 30 millions between 1852 and 1861, and an annual yield of less than 20 millions at the present time, is palpable. Of course the question is not settled by this consideration. One of the effects of the great gold discoveries was to create new markets for gold itself. Under its bimetallic *régime* France replaced an enormous stock of silver by gold, and, becoming a gold-using country, absorbed the new supplies to an enormous extent. India again absorbed an immense sum, especially during the years of the cotton famine, when her credit abroad was so suddenly and so enormously

augmented. Until 1866 it may be said that the market for gold was so affected by extraordinary demands that there was hardly time for prices to settle down into a normal state, and the full effect of the new supplies on gold-using countries alone was never fully tested. But it is at least obvious that the diminished supply could not now meet the extraordinary demands which were met by the supply of the earlier years, even if the ordinary demands have continued the same.

I should add that not only do the figures show an actual falling off of supply, but there is a probability of the supply being obtained at a greatly increased cost of production. The nineteen millions now produced are obtained with more effort than the thirty millions twenty years ago. This means that if prices were to tend upwards a check might be put upon the movement by a still farther falling off of the gold supply. It might not pay to work mines which are now profitable if prices all round, necessarily including wages as well as commodities, were to rise.

We come then to the question whether ordinary demands have continued the same, to which the answer must, of course, be that coincident with the gradually declining supply of gold there must have been an enormous increase of current demands. The increase of population in the gold-using countries alone must have been nearly 50 per cent. In the United Kingdom alone, the annual rate of increase has been for long nearly 1 per cent. per annum, 0·83 per cent. between 1861 and 1871, which gives 28 per cent. in thirty years, while in the Australian colonies the rate of increase is, of course, much greater. Suppose the world's annual supply of gold before 1848—say six millions sterling—was quite sufficient to maintain equilibrium then, which I doubt, the natural increment of population,

assuming it to be no more wealthy and to use no more coin per head than the population before 1848, would make the present usual requirement from the gold-using communities in existence before 1848 or their descendants about 9 millions. But the wealth per head has increased enormously. In the paper I read last year on Recent Accumulations of Capital in the United Kingdom, the rate of increase in the ten years ending 1875 was estimated at 27 per cent., and this rate of increase being deduced from the actual rate of increase in the assessments to the income tax, is not subject to the doubts which may be entertained respecting the totals of the accumulations themselves. Whatever the figures may be at the beginning and end of the period, such has been the rate of increase. Not only then must the requirements of gold-using people be increased by 50 per cent., to allow for the natural increment of population, but another 50 per cent. must be added for the greater wealth per head. This would further raise the usual requirements according to the previous 1848 standard from the above sum of .9 millions, which allows for the increase of population only to 13½ millions. The same conclusion is reinforced by a consideration of the quantities of goods dealt with in our principal industries. The production of coal in 1846, as you will see by reference to Mr. Mundella's paper last year, was estimated in 1846 at 36,000,000 tons; in 1876 it was 133,000,000 tons; or about three times as much. Between 1854 and 1876, or little more than twenty years, the production was rather more than doubled. The production of pig iron again has increased between 1840 and 1876 from 1,396,000 to 6,556,000 tons, or about five times in less than forty years. The entries and clearances of ships in the foreign trade again have increased from 13,307,000 in 1848 to 51,531,000

tons in 1877, or nearly quadrupled. The imports of raw cotton again have increased from 6 millions cwts. in 1848 to more than 12 millions cwts. in 1877, or 100 per cent.; and although this seems less striking than some of the previous figures, it is to be noticed on the other side that the exports of cotton-piece goods have risen from 1,096,751,000 yards in 1848 to 3,838 millions in 1877, or nearly four times. But it would be needless to multiply instances. The peculiarity of the period has been the increase of mechanical invention and the constant augmentation of goods, so that the accumulation of capital above shown is even in less proportion than the increase of the movement in trade which the money in use has to move. It is a moderate calculation that if only the countries which used gold in 1848, including their colonies, were now using it, the requirements to correspond with the increased population and wealth would be at least three times what they were, assuming prices to remain in equilibrium.

Nor is this all. The extension of the area of gold-using countries since 1848, first, by the practical inclusion of France, and next, by the more recent inclusion of Germany and the United States, has no doubt added to the usual demands to an extent it is unnecessary to determine exactly, but at least by several millions. Thus while during the last thirty years the annual yield of gold has been falling away from its first superabundance, the current demands for the metal have certainly been growing with marvellous rapidity. If there was much need twenty years ago of new channels for the new gold supplies to prevent an enormous rise in prices, it is at least possible that more recently the increasing current demands have been sufficient to use up the diminishing annual supply. So far as we can judge, the point of junction of the two curves must have been at some date

within the last ten years, though in such matters precision is of course impossible. In this view the fall of prices in the last ten years has been aggravated by a subtler cause than the extraordinary demands for gold which have existed. These demands have come upon a market which apparently had no surplus to spare. They have consequently been supplied very largely by a continued pressure upon existing stocks, till an adjustment has at length been made by a contraction of trade and a fall in values.

It may be said, perhaps, that the usual requirements of gold-using countries have been changed from what they were by the extension of the cheque and clearing-house system, by the diminished use of gold in the arts, and by similar means. Perhaps there is some diminished use of gold in the arts, but, of course, the only really important question in this matter is the use of gold in coinage, and I should doubt if any great economy in the use of gold has been established in the last thirty years. Excluding Germany and the United States, which have just been added to the number, the principal gold-using countries besides the United Kingdom and its colonies are France, Portugal, Egypt, and the South American countries, but it would be difficult to show, I think, that the cheque system or any other system of economising money has been greatly extended in those countries in the period. In the United Kingdom again all the recognised expedients for economising money—especially the cheque and clearing house system—seem to have been fully operative thirty years ago as they are now. The United Kingdom was very fully "banked" before 1850, the growth of banks and banking business having since been no more than in proportion to the increasing wealth of the community. The circumstances are such, however, that a considerable allowance may be made for the introduction of economising

expedients, without altering the fact that the current gold requirements of the world have increased enormously since 1848, while the annual supplies which threatened an incalculable rise of prices have been dwindling away.

Let me add, that whatever doubt may be entertained as to the actual meeting of the two curves of demand and supply of gold during the last few years—apart from extraordinary demands—all the facts and circumstances seem to indicate that the meeting point must come very soon unless the supply of gold is increased, or economising expedients introduced and extended. At the recent rate of progress the current demands may be expected to increase at least 20 per cent. every ten years, so that if 20 millions annually are now just sufficient for all purposes, not less than 24 millions will be required ten years hence. In another ten years the annual requirement will be more nearly 30 millions. If we start from a lower total now, say from 16 millions, all the same the figure of 20 millions will soon be exceeded. And this without leaving any margin for extraordinrry demands, which experience seems to show are never wanting, so that, as in a budget, allowance should be made for the unforeseen as in some sense more certain than all that is exactly forecast. If the scarcity of gold has as yet contributed very little to our money troubles or the fall in prices, it must at least be about to have that effect if no great change comes. Whether such a change is likely to come in the shape of an increased gold supply it will be for geologists and mineralogists to judge, but it is not reassuring to see how little comes practically of the recent gold discoveries in India, and the re-discovery in Midian. Whether on the other hand change may come in the shape of economising expedients will be a point of no little interest for bankers and all other business men, and for legislators. Considering

the slowness with which such expedients become effective when they are first introduced, and the perfection to which they have been brought in countries like England where they are introduced, I feel great doubts whether much relief can come in this way. On the whole, I see no other outlet from the situation than in the gradual adjustment of prices to the relatively smaller and smaller supply of gold, which must result from the increasing numbers and wealth of the populations of gold-using countries.

### *III.—WHAT THE FALL EXPLAINS, AND ITS CONSEQUENCES.*

The fact of a fall of prices such as has been described explains a good many things, while the consequences of it, or, to speak more correctly, perhaps, of the more permanent of the causes which have contributed to it, must be far-reaching. There are one or two topics of importance in this connection on which I have a few brief remarks to offer.

First, we have a sufficient explanation in the fall of prices of much of the falling off in trade, especially our foreign trade, which is the occasion of so much alarmist writing. There is a constant assertion by some writers of two alleged facts, one, that our foreign trade is diminishing, the other, that foreign countries are gaining as we lose, from which the inference is that the decline of our trade is to be accounted for by the successful competition of foreigners. Indeed, it is sometimes said that the foreigner is taking the bread out of the mouths of our manufacturers and the men whom they employ. I have never seen this view supported by any careful examination of what the growth of the trade of foreign countries really is, or by a consideration of what goes on in our trade generally, and

not merely in particular trades which may be affected here and there by the pressure of foreign competitors; but the question of the fall of prices appears to open up a new view. What if there is no falling off, or no material falling off, of our trade at all, so that all this writing about our decaying trade, and the gain of foreigners at our expense, is only so much writing in the air? It is clear that an average fall of 20 or 30 per cent. in prices must make all the difference in the world. We are not left to conjecture in the matter. The exports of British and Irish produce show a falling off in total value between 1873 and 1877 of about 22 per cent.

| | £ |
|---|---|
| The exports in 1873 were ..... | 255,165,000 |
| „ '77 „ ..... | 198,893,000 |
| Reduction ..... | 56,272,000 |

which is almost exactly in the proportion stated. But we have already seen that while the index number of 73·1 falls to be increased in 1873, when a comparison is made with 1861 prices, by the sum of 20·60, the index number falls to be decreased in 1877 by 2·04, so that there has been an average fall of price between 1873 and 1877 of more than 20 per cent.* There is nothing in the figures then to imply that the quantities of the articles exported in 1877 were less than in 1873. To throw farther light on the point, I extract from the report to the Board of Trade already referred to, a table in which the prices of the articles of export enumerated in the statistical abstract, according to their declared values in 1873, have been applied to the quantities exported in 1877. The result is, that while the aggregate declared value of these enumerated articles in 1877 was £147,801,000, their aggregate value

* And exclusive, of course, of the additional fall in 1878.

at the prices of 1873 would have been £191,530,000, which is within a million of the aggregate value of the exports of the same articles in 1873. There are variations in the quantities of the articles, some increasing, and others diminishing between 1873 and 1877, but the upshot is that if the prices of 1873 had been maintained all round in 1877, the returns as far as the enumerated articles are concerned, and presumably as regards the remaining articles of trade where the entries are mostly by value only, would have exhibited no decline at all.

It cannot be maintained of course that a fall of values only is immaterial. Profits depend on price, and this is an especially important consideration in the foreign export trade as regards articles exclusively or mainly of British origin, and where a large part of the value is not constituted by the cost of the raw material previously imported. Our trade may consequently be less profitable, though the quantity we turn out has not diminished. But other countries must suffer by the fall in price exactly as we do ourselves, and the question here is not of the profitableness of the trade at a given time, but of its extent; and as to this the impression that our foreign trade has diminished to any material extent during the last few years may be pronounced to be absolutely without foundation. Regarding profit, moreover, I may be allowed to say in passing, a good deal might be urged in favour of a time like this being really the most profitable in the end, notwithstanding all the complaints of depression. Much of the prosperity of years like 1873 is in reality hollow, and much of the dullness of dull times is due to the fact that people are forced to acknowledge themselves not so rich as they thought. But this is perhaps taking us away from the matter in hand, which is that of the volume of our trade only.

To be quite fair, it must be acknowledged that holding our own in such matters is not all that is necessary. If business is to be in a real equilibrium, there should be a steady increase in it *pari passu* with the increase of population. There has been some real check then to the growth of our foreign trade during the last five or six years. But on the other hand, we must remember that previous to 1873 there was a marvellously rapid growth, much above the annual average. All things considered, it is yet too soon to complain of the check of the last five years as indicating the beginning of a permanent retrogression.

The *second* point I shall advert to is the possible connection between the appreciation of gold and the depreciation of silver. It is an obvious enough suggestion that as silver in the markets of gold-using countries is only a commodity, it will probably sympathise with any general movement in the prices of commodities. Indeed, it has been urged by the Calcutta Government that it is not silver which has changed, but gold. Silver prices, they say, have not perceptibly risen in the Indian markets, although gold has risen. Without going into detail on this subject, which would take up a whole paper by itself, and which we may safely leave to Mr. Bourne when he comes to read his paper on the silver question, I may be allowed to remark that very likely gold and silver have *both* changed. One or two of the causes we have described as likely to produce a general fall in prices—the prolonged discredit and the bad harvests—have been as applicable to silver-using as to gold-using countries, and have surely been applicable to India and China, with their tremendous famines and much rottenness in their foreign trade. It was therefore possible that silver prices should have fallen like gold prices, and the relation between the two metals have been left unchanged; if silver

prices have been stationary, or have not fallen so much as gold prices, then, as we cannot be sure how much the scarcity of gold has aggravated the fall of prices here, it is difficult to argue from the fall of silver in relation to gold that the difference between them arises from an appreciation of gold only. There may have been depreciation of silver as well, even if of a temporary kind only; the events of the last few years relating to silver—especially the sudden sales of the stocks of German silver, and the stoppage of silver coinage by the Latin union—being calculated to have that effect. The wonder, perhaps, rather is that silver has not depreciated still more. Possibly the stock in use in the silver countries is so large that great additions can be easily absorbed; but the change has yet to be tested, we must remember, by a period of good business and naturally rising prices in the silver-using countries. So far as it goes, however, the depreciation of silver in relation to gold, whatever changes may have occurred in silver itself in relation to other commodities, is not inconsistent with the supposed change in gold in relation to such commodities.

A *third* point to notice is the connection between a great fall in the prices of commodities and a fall in wages. The two things are inseparably connected. First, in certain trades—and this connection has been specially shown of late years in the iron trade—the gross price of the articles produced is so much diminished, that if the cost of labour is unaltered the labourer will be receiving an enormously increased share of what is produced. Say an article formerly selling for £20, the cost for labour being one-fourth or £5, falls in price to £10, then the £5 given to the labourer would be 50 per cent. of the selling price. It is incredible that so great a change could occur without the labourer being affected, and there have been even greater changes

in the iron and coal trades. But, *second*, in almost all trades, especially those in which the cost of labour constitutes a large part of the cost of production, there is necessarily some connection, in the long run, between the money rate of wages and the prices of the usual articles of the labourer's consumption, according to his standard of living. It would take us out of our way to enter into a controversy here about the wages fund, but it is quite plain that the real wages paid by the capitalist to the labourer consist mostly of commodities; if money wages remain the same while commodities fall in price, there is an increase of real wages. In some way or other, then, an adjustment of money wages to reduced prices becomes inevitable. In miscellaneous industries this may be effected by the constant action of individual interests when changes of employment occur; by the steady substitution of superior for inferior workmen; by the transfers of business enabling wages of clerks and others to be revised; and by similar means. In more conspicuous trades, where large groups of men are employed, there are notices of reduction on a large scale as well as these minor instruments of effecting a reduction. But nominal reduction must come somehow, unless there is to be a real rise in wages. The visible opportunity of employers is of course the scarcity of employment and the disorganisation of industry which attend a great fall of prices; but employers would obviously be unable to continue paying for any length of time really increased wages. There is no Fortunatus's purse which would not quickly be exhausted in such an attempt.

There is another subject of, perhaps, greater complexity which seems to be suggested. If a general downward movement of prices, due to a comparative scarcity of gold, has begun, are we not on the eve of a reversal of the changes which

commenced with the Australian and Californian discoveries—changes so admirably described in Mr. Jevons's well-known book? These changes were substantially a gradual lightening of debts for the benefit of the debtor class, and to the immediate loss of annuitants and capitalists, however much the latter might be compensated in the end by an increase, in the nominal income of their land, houses, and other securities. Now we may witness a gradual increase of the burden of debts to the loss of debtors, and for the immediate advantage of creditors, although, in the end, the latter may lose by the relatively diminished nominal income of their securities, following the adjustment of all prices to the new circumstances. There can be no doubt that some such general effect as this must follow, if it should, in fact, turn out that a serious appreciation of gold has set in, and the circumstances of its production and the use of economising expedients do not change. In the end the effect in contracting trade is looked forward to with some apprehension by many of our best authorities.

I do not propose to dispute this conclusion here. It would land us in an almost endless controversy if we were to discuss whether a constant influx of new money, leading to a prolonged rise in prices, does more good or harm in the long run, than a constant failure of new supplies to meet current demands leading to a prolonged fall in prices. A great deal, I imagine, could be said on both sides; the rebound from excessive inflation more than compensating perhaps all its alleged benefits, and the additional fall in prices due to a gradual scarcity of gold being as nothing when compared with the falls which take place from time to time owing to the simple failure of credit. But while avoiding this discussion, I may at least point out that the most serious effects of this incipient gold scarcity will

probably be gradual, just as the effect of the discoveries in causing a rise of prices has been much more gradual and confined within narrower limits than economists were in the habit of anticipating. Particularly at the present moment the depression may have gone so far that the accumulating stocks of the precious metals will be sufficient for a good while to support a considerable expansion of trade—that it will only be later on, as prices tend to get back to the former level, that the real pressure of the scarcity will be felt. A year or two's ease in the money market following the events of last year will however be no proof at all that the causes above described have not been operative and will not again be operative.

### *IV.—CONCLUDING OBSERVATIONS*

In bringing this long paper to a close, I have only one or two practical observations to offer. The "moral" of much that has been said is clearly this—that if possible the scarcity of gold which has contributed to the present fall of prices, and may have farther serious effects in future should, if possible, be mitigated, and should at any rate not be aggravated, by legislative action. I have expressed great scepticism as to whether, in fact, seeing how slow men's habits are to change, any mitigation is probable in the shape of expedients for economising money. But it must be recognised that if bodies of men were amenable to reason in currency questions, and there was really a widely-felt belief of serious mischief impending from a gold scarcity, some economising expedients could be tried. To give only one illustration: I suppose few things are more unlikely than that £1 notes, or notes for less than £5, will again be reintroduced in England, but the introduction of such notes

alone, with all suitable arrangements for their convertibility, would certainly go far to neutralise even such another extraordinary demand as that for the German coinage. The German demand for gold would itself have been much smaller than it was, but for the banking reform which accompanied the coinage, and part of which reform was the abolition of notes of small denominations. The United States' pressure for gold during the last few months would also have been far more serious than it has been, if the Government of that country had complicated its resumption arrangements by the abandonment of all greenbacks of from 5 to 25 dollars, and the prohibition of bank notes for such amounts. There seems a possibility of gaining something then by reintroducing £1 notes if the present gold scarcity should continue. I hope I shall not be understood as advocating such a change, or as being insensible to the weight of many practical objections which could be urged against it if it were immediately proposed. I am only mentioning it as a possible expedient for economising money, and there are no doubt others. As regards small notes, however, it would seem that at least any change by countries which still retain them in the direction of their further abolition, leading to a greater demand for the precious metal, ought to be deprecated. Still more we ought to deprecate any change in silver-using countries in the direction of substituting gold for any part of the silver in use. It would be nothing short of calamitous to business if another demand for gold like the recent demands for Germany and the United States were now to spring up. Even a much less demand would prove rather a serious affair before a very long time elapsed.

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